



Independent Regulator  
of NHS Foundation Trusts

09 MAY 2005

## Financial Reporting Advisory Board Paper

### NHS Foundation Trusts Manual for Accounts and Capital Accounting Manual 2004/05

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| <b>Issue:</b>                      | Proposed List of Divergences from RAM for NHS Foundation Trusts  |
| <b>Impact on guidance:</b>         | NO   |
| <b>UK GAAP adaptation?</b>         | Underlying principle is to adhere to UK GAAP although some adaptation as outlined  |
| <b>IAS/IFRS compliant?</b>         | N/A  |
| <b>IPSAS compliant?</b>            | N/A  |
| <b>Impact on budgetary regime?</b> | No   |
| <b>Recommendation:</b>             | Approve the list of divergences and accordingly approve the NHS Foundation Trust Manual for Accounts and Capital Accounting Manual 2004/05 |
| <b>Timing:</b>                     | 2004/05  |

## DETAIL

### Background

1. The Health and Social Care (Community Health and Standards) Act 2003 provided for the creation of NHS Foundation Trusts as public benefit corporations, to provide goods and services for the purposes of the health service in England.

2. There are 25 NHS Foundation Trusts authorised by Monitor, the Independent Regulator of NHS Foundation Trusts, in the financial year ended 1<sup>st</sup> April 2005.
3. Monitor has produced a Manual for Accounts and Capital Accounting Manual for the financial year 2004/05. This has recently been formally consulted on and the consultation process ended on 14<sup>th</sup> February 2004.
4. HM Treasury already accept that the following are fundamental differences between NHS Trusts and Government Departments rendering some requirements in the Resource Accounting Manual (RAM) irrelevant to NHS Trusts.
5. This paper outlines the proposed list of practices divergent from the Resource Accounting Manual for formal agreement by the Treasury.
6. These manuals have been issued as draft, subject to formal approval by FRAB in respect of the list of divergences attached.
7. The detailed list of proposed divergences is included at annex 1.

#### **UK GAAP compliance**

8. These divergences adhere to the principle that the accounting practices of NHS Foundation Trusts adhere to UK GAAP as far as possible
9. The details of any differences are outlined in Annex 1.

#### **Summary and recommendation**

10. The NHS Foundation Trust Manual for Accounts and Capital Accounting Manual have been produced in accordance with the underlying principle that the accounting practices adhere to UK GAAP as far as possible.
11. The Financial Reporting and Advisory Board are asked to approve the list of divergences and accordingly approve the Manuals.

Beverley Evans

Assessment Director

Monitor

9<sup>th</sup> May 2005

**ANNEX A**

**PROPOSED LIST OF DIVERGENCES FROM THE RESOURCE AND ACCOUNTING MANUAL**

| <b>GOVERNMENT DEPARTMENTS</b>  | <b>NHS FOUNDATION TRUSTS<br/>(PUBLIC BENEFIT CORPORATIONS)</b>  |
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| On-vote  | Off-vote  |
| CFERs and Appropriations in Aid apply  | CFERs and AinA do not apply   |
| Have revenue and capital Resource Limits   | NHS Foundation Trusts do not have revenue or capital resource limits. Individual NHS foundation Trusts are required to comply with a Prudential Borrowing Code. |
| Have cash limits   | NHS Foundation Trusts are required to comply with a Prudential Borrowing Code but do not have cash limits.  |
| Have an Operating Cost Statement   | Have an Income and Expenditure Account  |
| Have a General Fund  | Have Public Dividend Capital and pay dividends  |
| Have a Statement of Recognised Gains and Losses  | Have a Statement of Total Recognised Gains and Losses   |
| Have Schedule 1 Summary of Resource Outturn and:<br>Note 7 Analysis of income payable to the Consolidated Fund<br>Note 9 Administration cost limits<br>Note 10 Reconciliation of net operating cost and net resource outturn<br>Note 11 Analysis of net operating cost by spending body<br>Note 12 Analysis of resource outturn by function and reconciliation to Operating Cost Statement | Do not have Schedule 1 nor the notes as listed.   |
| Have Schedule 5 Resources by Departmental Aim and Objectives   | Do not have Schedule 5. Individual NHS Foundation Trusts disclose segmental information where relevant to comply with SSAP 25.                                  |
| Ministers directly involved  | Ministers not directly involved   |
| Departments do not present their reports and accounts at public meetings   | The Annual Report and financial statements of individual NHS Foundation Trusts are laid before Parliament and presented at a public meeting.                    |

Largely due to their different structure and role compared to Government Departments, the following are approved accounting practices in NHS Foundation Trusts that differ from those in the RAM:

| <b>RAM REQUIREMENT</b>        | <b>NHS FOUNDATION TRUST ACCOUNTING</b> |
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| <b>Income and expenditure</b> |  |

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| <p>6.2.1 says “Income and expenditure will be recorded separately in the operating cost statement under two headings (except where 1.6.1 b i applies):<br/>a) administration costs<br/>b) programme costs.”</p> <p>1.6.1 b i refers to agencies, allowing dispensation from the OCS format.</p>   | <p>The administration/programme split is considered to be inapplicable to NHS Foundation Trusts.</p> <p>Income and expenditure are analysed in accordance with UK GAAP requirements.</p>  |
| <p><b>Non cash costs</b></p> <p>7.1.3 says “Included within the expenditure will be “non-cash” items, which, unlike comparable transactions in the private sector, do not result in the payment of cash by the department. Non-cash items will comprise the audit fee and the cost of capital charge...”</p>  | <p>The audit fee and the cost of capital are cash charges in NHS Foundation Trusts.</p>   |
| <p><b>Research and development</b></p> <p>Note 5 to the accounts “Non-staff administration costs” includes a line for research and development expenditure.</p>   | <p>There is no separate line for research and development expenditure because some research and development activity cannot be separated from patient care activity.</p>  |
| <p><b>Unwinding of discounts</b></p> <p>4.3.11 requires the unwinding of discounts to be treated as follows:</p> <p>a) where the provision relates to programme costs, reflected in the relevant expenditure heading in the OCS and disclosed by way of note;<br/>b) where the provision relates to administration costs, recognised as an interest expense and disclosed separately from other interest charges in the notes to the OCS.</p> | <p>The administration/programme split is considered to be inapplicable to NHS Foundation Trusts.</p> <p>As per FRS 12, unwinding of discounts is called “other finance costs” and is entered on the Income and Expenditure Account adjacent to “interest payable”</p> |
| <p><b>Profit/loss on disposal of fixed assets</b></p> <p>“Profit on disposal of fixed assets” is netted off expenditure where it is no more than an adjustment to depreciation (or amortisation) or impairment previously charged. Other profits are</p>  | <p>As per FRS 3, profit or loss on disposal of a fixed asset is shown as an exceptional item in the Income and Expenditure Account.</p>   |

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| <p>treated as income.</p>   |  |
| <p><b>Salary and pension entitlements of senior managers</b></p> <p>8.5.28 requires full details, by named individual, of remuneration and pension entitlements of senior managers</p>  | <p>NHS Foundation Trusts should disclose name and title, salary, other remuneration, golden hellos and compensation for loss of office, benefits in kind and pension disclosures of senior managers.</p>   |
| <p><b>Staff</b></p> <p>8.5.12 says “The average number should be quoted of whole-time equivalent persons employed during the year in total on each of the objectives of the department and other bodies within the consolidated resource accounts.”</p>   | <p>The average number of whole time equivalents employed during the year is analysed by staff groups e.g. medical and dental, admin and estates etc.</p>   |
| <p><b>Grouping of assets</b></p> <p>3.2.9.d says “where there are large numbers of a certain type of asset, which, if treated singly, would fall below the capitalisation threshold, they should be grouped for the purposes of determining whether they fall above or below the threshold. This may apply, for example, to IT equipment and office equipment.”</p> | <p>Grouping of assets for capitalisation purposes depends upon the assets being functionally interdependent; having broadly simultaneous purchase dates; anticipated to have simultaneous disposal dates; and under single managerial control.</p> |
| <p><b>Basis of valuation</b></p> <p>3.2.18 says “The professional valuation should be carried out in accordance with the Appraisal and Valuation Manual produced jointly by the Royal Institution of Chartered Surveyors (RICS) the Incorporated Society of Valuers and Auctioneers (ISVA) and the Institute of Revenues Rating and Valuation (IRRV).”</p>          | <p>NHS Foundation Trust Valuers adhere to the RICS professional valuation rules.</p>   |
| <p><b>Open market value</b></p> <p>The length of time that an open market valuation can be considered valid and the application of indexation is not discussed.</p>   | <p>NHS Foundation Trusts adhere to the requirements of FRS 15 when holding assets at open market value.</p>  |
| <p><b>Reversal of impairments</b></p> <p>The RAM (3.2.25) refers to reversals of impairments without distinguishing different types. Reversals are to be taken to the OCS to the extent that the original impairment was taken there (adjusted for subsequent depreciation).</p>  | <p>Reversals of impairment are taken to the income and expenditure account to the extent that the original impairment was taken there in accordance with FRS 15.</p>   |

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| <b>Cost of capital and assets under construction</b><br><br>Assets under construction are included in the cost of capital charge. | Assets under construction are included in the calculation of dividends to be paid on public dividend capital.  |
| <b>Summary financial statements (SFSs)</b><br><br>Not covered in the RAM  | Consistent with UK GAAP, individual NHS Foundation Trusts are allowed (and usually do) publish SFSs with their Annual Reports. If so, they must give contact details as to how the full accounts can be obtained. Requirements for the completion of SFSs is given in the Manual for Accounts. |
| <b>Annual Report – various</b><br><br>Not covered in the RAM  | NHS Foundation Trusts are required to prepare an Operating and Financial Review and are required to comply with UK GAAP and other best practice requirements in determining disclosures in the OFR and the Annual Report.  |