



Independent Regulator  
of NHS Foundation Trusts

## Financial Reporting Advisory Board Paper

### NHS Foundation Trusts Financial Reporting Manual 2005/6

<b>Issue:</b>	NHS Foundation Trusts Financial Reporting Manual (FT FReM) – Proposed list of divergences from FReM
<b>Impact on guidance:</b>	NO
<b>UK GAAP adaptation?</b>	Underlying principle is to adhere to UK GAAP although some adaptation as outlined in the list of
<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 Trusts Financial Reporting Manual (FT FReM)
<b>Timing:</b>	2005/6

#### **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 32 NHS Foundation Trusts authorised by Monitor, the Independent Regulator of NHS Foundation Trusts, in the financial year ended 1<sup>st</sup> April 2006.
3. Monitor has produced an NHS Foundation Trusts Financial Reporting Manual (FT FReM) for NHS Foundation Trusts for the financial year ended 2005/06. This document will replace the Manual for Accounts and Capital Accounting Manual for the year ended 1 April 2005 and incorporates Monitor's annual reporting guidance. This draft document is due to be released for consultation in the week commencing 21 November 2005.
4. The pre consultation draft of the document has been reviewed by the Technical Issues Forum (a group comprising NHS foundation trust auditors and representatives from the National Audit Office and Treasury). The comments of this group have been incorporated into the consultation draft. Annex 2 provides the full text of the consultation draft FT FReM. The FT FReM will go out for consultation at the beginning of December 2005.
5. HM Treasury already accept that the following are fundamental differences between NHS Trusts and Government Departments rendering some requirements in the Government's Financial Reporting Manual (FReM) irrelevant to NHS Trusts.
6. This paper outlines the proposed list of practices divergent from the FReM for formal agreement by the Treasury. The detailed list of proposed divergences is included at annex 1.

#### **UK GAAP compliance**

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

#### **Summary and recommendation**

9. The NHS Foundation Trust Financial Reporting Manual has been produced in accordance with the underlying principle that the accounting practices adhere to UK GAAP as far as possible.
10. The Financial Reporting and Advisory Board are asked to approve the list of divergences and accordingly approve the FT FReM.

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**Departures from the *Financial Reporting Manual (FReM)***

HM Treasury accept that the following are fundamental differences between NHS foundation trusts and Government departments rendering some requirements in the *Financial Reporting Manual (FReM)* irrelevant to NHS foundation trusts.

<b>Government departments</b>	<b>NHS foundation trusts</b>
On-vote	Off-vote
Appropriations in Aid (AinA) apply	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 the <i>Prudential Borrowing Code</i> .
Have cash limits	NHS foundation trusts are required to comply with the <i>Prudential Borrowing Code</i> 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 total recognised gains and losses	Have a statement of total recognised gains and losses.
Have statement of parliamentary supply and associated notes	Do not have statement of parliamentary supply nor associated notes
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 *FReM*:

<b>FReM requirement</b>	<b>NHS foundation trust accounting</b>
Income and expenditure are recorded as administration and programme (para 4.3.4)	NHS foundation trust income is analysed by source and expenditure analysed subjectively
Cost of capital is a notional cost (para 4.5.1)	NHS foundation trusts do not have notional costs
Fixed assets are indexed annually (para 5.2.5 and 5.2.3)	Assets are valued on a five yearly basis with interim valuations every three years.
Losses on revaluation can be taken to the statement of recognised gains and losses where the recoverable amount is greater than the revalued amount in accordance with the manual (para 5.2.5 and 5.2.34b)	Losses on revaluation can only be taken to the statement of recognised gains and losses where the requirements of FRS 15 and 11 are met.

FReM requirement	NHS foundation trust accounting
The Government Grant reserve is revalued in line with the assets which have been funded by grant (para 5.2.5, 5.2.38b)	Government grants are held as deferred income in accordance with SSAP 4.
Research and development expenditure should be disclosed in accordance with SSAP 13 (para 5.3.6)	Separate disclosure is required but in some instances cannot be separated from the costs of patient care and is therefore not separately disclosed.

**FRAB should be aware that the only new divergence in 2005/6 is the treatment of Government Grants**