

NHS Foundation Trust Financial Reporting Manual 2005/06 (FT FReM, draft for consultation)

18 November 2005
IRCP 06/05
Consultation version

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1. Chapter 1: Annual Report and Accounts preparation and submission requirements

Statutory requirements for NHS foundation trusts' Annual Report and Accounts

- 1.1 There are three main statutory requirements for an NHS foundation trust in relation to its accounts:
- to keep accounts in such form as the regulator may with the approval of HM Treasury direct;
 - to prepare in respect of each financial year annual accounts in such form as the regulator may with the approval of HM Treasury direct; and
 - to comply with any directions given by the regulator with the approval of HM Treasury as to:
 - the methods and principles according to which the accounts are to be prepared,
 - the information to be given in the accounts.
- 1.2 These requirements are set out in paragraphs 24 and 25 of Schedule 1 to the Health and Social Care (Community Health and Standards) Act 2003 (the 2003 Act).
- 1.3 In determining the form and content of the annual accounts, Monitor, as the regulator, must aim to ensure that the accounts present a true and fair view (paragraph 25(3), Schedule 1). Monitor has to obtain Treasury's approval for the Accounts Direction. The agreed Accounts Directions in respect of Annual Accounts and of the Annual Report are both shown at annex 1 to this chapter.
- 1.4 In order to present a true and fair view, the accounts of an NHS foundation trust must comply with UK Generally Accepted Accounting Practices (UK GAAP) (unless directed otherwise). The main source of guidance, therefore, for NHS foundation trust finance staff will be published accounting standards and supplementary guidance. Extant UK accounting standards are available from the Accounting Standards Board's website at <http://www.asb.org.uk/asb/technical/standards/accounting.cfm>.
- 1.5 NHS foundation trusts also fall within the remit of the Financial Reporting Advisory Board (FRAB) which provides independent accounting advice in respect of public sector bodies to HM Treasury and the equivalent bodies in Scotland and Northern Ireland. The advice of FRAB is reflected in the *Financial Reporting Manual* (the *FReM*), which is written for Government departments, executive agencies, executive non-departmental public bodies and trading funds. This manual is consistent with the requirements of *FReM* and provides relevant guidance on departure from UK GAAP. Divergences from *FReM* for NHS foundation trusts have been agreed with FRAB and the current list of divergences is included as annex 1 to chapter 2 of this manual.
- 1.6 If NHS foundation trusts wish to refer to the *FReM* on a particular issue, a copy can be accessed on the resource accounting website at www.financial-reporting.gov.uk.

- 1.7 NHS foundation trusts should discuss the practical application of accounting standards with their auditors and agree the accounting approach which will be adopted. Guidance on accounting standards is included in this manual only where NHS foundation trusts are:
- required to depart from UK GAAP;
 - required to make disclosures which are in addition to UK GAAP; or
 - faced with particular circumstances which UK GAAP does not address.
- 1.8 It is expected that the preparers of an NHS foundation trust's Annual Report and Accounts will consult this manual in the first instance and then refer to accounting standards where necessary. Other relevant guidance is cross referenced in this manual where appropriate.
- 1.9 It may be necessary for Monitor to issue amendments to this manual as issues arise during the year. Directors of finance will be notified by email of any amendments to the current manual and the amendments will also be published on Monitor's website. In addition, the manual will be updated annually and published on Monitor's website following consultation.

Annual Report and Accounts

- 1.10 The Annual Report and Accounts of an NHS foundation trust consist of:
- the annual report (see paragraph 4.5 for details);
 - the accounting officer's statement of responsibilities;
 - the auditor's opinion and certificate, including any report;
 - the statement on internal control;
 - the foreword to the accounts which should state that the accounts are prepared in accordance with paragraphs 24 and 25 of Schedule 1 to the 2003 Act;
 - four primary financial statements (income & expenditure account, balance sheet, statement of total recognised gains & losses and cash flow statement); and
 - the notes to the accounts.
- 1.11 NHS foundation trusts are able to present their Annual Report and Accounts in any way that they choose, providing that they are compliant with UK GAAP and the additional requirements laid down in this manual. Therefore, this manual does not include an accounts template although it does include some example statements and notes where it is considered useful.

Consolidated NHS foundation trust accounts

- 1.12 Monitor is required by statute (paragraph 11(3), Schedule 2 to the 2003 Act) to prepare a report in respect of each financial year which provides an overall summary of the accounts of NHS foundation trusts. This report must be prepared as soon as possible after Monitor has received the Annual Report and Accounts of all NHS foundation trusts for the relevant financial year and must be laid before Parliament and copied to the Secretary of State. The accounts of all NHS foundation trusts will also be consolidated into the *Whole of Government Accounts* prepared by HM Treasury. NHS foundation trusts will have to complete consolidation schedules to allow for the capture of accounting data for the summary of accounts and the *Whole of Government Accounts*.

Deadlines, approval and publication procedures

- 1.13 Monitor has issued the following deadlines for the production of NHS foundation trust Annual Reports and Accounts for the year ending 31 March 2006:
- **draft** Annual Accounts and FT consolidation schedules (FTCs) to the auditor and Monitor by **midday on Monday 8 May 2006** by email to ftaccounts@monitor-nhsft.gov.uk and by post to:
FT Accounts
Monitor
4 Matthew Parker Street
London SW1H 9NL
- NB. This is the same deadline for accounts as for both NHS trusts and PCTs so that NHS foundation trusts can agree balances with other NHS bodies; and
- **audited** Annual Reports and Accounts and FTCs to Monitor by **midday on Monday 19 June 2006** in the same manner as the draft accounts were submitted. It would assist us if email copies of certificates and accounts contained signatures as and where appropriate.
- Please note: the Annual Report and Accounts must be formally approved by the NHS foundation trust board of directors (the board). After adoption by the board, the chief executive should sign and date the balance sheet and Annual Report as evidence of this. As accounting officer the chief executive should sign the foreword to the accounts, the statement on internal control and the remuneration report. The Annual Report and Accounts should disclose the name of the person who signed them.
- 1.14 NHS foundation trusts are required to lay their Annual Report and Accounts, with any report of the auditor on them, before Parliament (paragraph 25(4)(a), Schedule 1 of the 2003 Act) before the summer recess begins on 25 July 2006. In 2005/06 this will be undertaken by Monitor on behalf of all the NHS foundation trusts, following the same process as in 2004/05.
- 1.15 The Annual Report and Accounts which are laid before Parliament **must include the full statutory accounts and not summary financial statements**. The Annual Report and Accounts that each NHS foundation trust sends to Monitor to be laid must be one document. It might be that this is formed from two electronic files but they must be presented (i.e. the hard copy must be bound) as one document. If an NHS foundation trust is getting an Annual Report and Summary Financial Statement document designed, a solution could be to bind a pdf of the annual report with a pdf of the full annual accounts and amend the title accordingly.
- 1.16 To ensure the Annual Report and Accounts are laid before Parliament before recess, 16 copies should be sent to Monitor **to arrive by 4pm on Monday 17 July 2006** at the following address:
- Victoria Ellen
Monitor
4 Matthew Parker Street
London SW1H 9NL
- 1.17 An electronic copy of the Annual Report and Accounts must also be sent to arrive by 4pm on Monday 17 July to victoria.ellen@monitor-nhsft.gov.uk. When the Annual Report and Accounts have been laid before Parliament, these electronic files will be added to the Public Register of NHS foundation trusts on the Monitor website.
- 1.18 The emailed files must be in pdf format. It is acceptable to send in more than one electronic document (for example, a pdf of the annual report and a pdf of the full accounts). Each pdf must not be larger than 5MB in size. Files larger than this cannot be placed on the public register. Files close to this size will take longer to download from the website.
- 1.19 Until the Annual Report and Accounts have been laid before Parliament nothing can be published by the NHS foundation trust for the wider public. You will be informed as soon as the Annual Report and Accounts have been laid.

- 1.20 Once laid before Parliament the Annual Report and Accounts cannot be changed. Guidance on the form and content of the annual report is included in chapter 4 of this manual. However, NHS foundation trusts have the discretion to publish Annual Report and Summary Financial Statements locally, see paragraph 1.24 below for more details.
- 1.21 Copies of the audited annual accounts, any report of the auditor and the latest annual report must be made available for inspection by members of the public free of charge at all reasonable times (paragraph 22(1), Schedule 1 of the 2003 Act). Any person who requests a copy of or an extract from any of these documents must be provided with one, although a reasonable copying charge may be levied where the person requesting a copy or extract is not a member of the NHS foundation trust (paragraph 22(4), Schedule 1 of the 2003 Act).

Annual General Meeting of the board of governors

- 1.22 The Annual Report and Accounts, auditor's report and annual report must be presented to the board of governors at a meeting of the board of governors (paragraph 28, Schedule 1 of the 2003 Act). This meeting of the board of governors should be convened within a reasonable timescale after the end of the financial year but must not be before the Annual Report and Accounts have been laid before Parliament.
- 1.23 It is suggested that an advertisement be placed in the local media not less than 14 days prior to the date of the meeting, stating:
- the time, date and location of the meeting; and
 - that copies of the Annual Report and Accounts (or Annual Report and Summary Financial Statements) of the NHS foundation trust are available, on request, prior to the meeting and how copies can be obtained.

Summary financial statements

- 1.24 Once the full Annual Report and Accounts has been laid before Parliament, NHS foundation trusts have discretion as to whether they wish to publish the full document locally or the Annual Report and Summary Financial Statements. If Summary Financial Statements (SFS) are published, they must be accompanied by a report from the auditor, which will be prepared in accordance with the APB Bulletin 1999/6. The title of the report should be amended to "Annual Report and Summary Financial Statements".
- 1.25 The Annual Report and Summary Financial Statements must be made available to the public free of charge, although a reasonable copying charge may be levied for copies of the full audited accounts where the decision has been made to publish SFS. SFS must contain the following:
- 1.26 A prominent statement that the SFS are merely a summary of the information in the full accounts which are available on demand.
- The amount, if any, of the nominal fee charged for the full accounts must be stated together with the address/phone number of the person to be contacted to obtain a copy of the full annual accounts.
 - Summary financial data in line with UK GAAP. This involves publishing either the primary statements in full or, as a minimum, disclosing the entries in the accounts under the main headings.
 - The statement on internal control.
 - The auditors' report on the SFS
 - A statement that the SFS have been approved by the board. This should be evidenced by the signature of the chief executive as accounting officer.
- 1.27 The SFS must not be published before the full Annual Report and Accounts have been laid before Parliament.

NHS foundation trusts in their first period of operation

- 1.28 When an NHS trust is awarded NHS foundation trust status, an Annual Report and Accounts must still be published for the final period of the NHS trust's existence. This may cover a full financial year where the change in status occurs on 1 April or a shorter period where the change in status occurs during the financial year. NHS foundation trusts will be required to prepare the final accounts and summarisation schedules for the predecessor NHS trust and meet the deadlines set by the Department of Health.
- 1.29 A public meeting must be held by the 30 September following the end of the financial year in which the NHS foundation trust was authorised at which the predecessor NHS trust's final Annual Report and Accounts for the final period of NHS trust status must be presented.
- 1.30 The annual report, annual accounts and consolidation schedules for the final period of NHS trust status must be prepared in accordance with the guidance in the *NHS Trust Manual for Accounts* issued by the Department of Health for the period in question. It is recommended that the Annual Report and Accounts for the final period of the NHS trust is produced as a separate document to the Annual Report and Accounts for the first period of the NHS foundation trust status. This is because the corporate governance regimes and accounting procedures are different for each type of body.
- 1.31 Where an NHS foundation trust is awarded that status from 1 April, there is no requirement to include prior year comparatives for the income and expenditure account, statement of recognised gains and losses and cash flow statement. However, the opening balance sheet should be included in the accounts and FTCs and some balance sheet notes will have to include an opening balance.
- 1.32 Where an NHS foundation trust starts part way through a financial year, two part-year sets of accounts are required. The first part-year accounts in respect of the predecessor NHS trust should be prepared in accordance with the *NHS Trusts Manual for Accounts*. The second part-year accounts in respect of the NHS foundation trust must be prepared in accordance with the *NHS Foundation Trust Financial Reporting Manual*. Opening balances for the balance sheet and related notes as at the date of the NHS foundation trust's establishment should be disclosed but no other comparatives are required.
- 1.33 The NHS foundation trust Annual Report and Accounts and consolidation report must be prepared in accordance with this manual.

Annex 1 to chapter 1 – directions

HEALTH and SOCIAL CARE (COMMUNITY HEALTH and STANDARDS) ACT 2003

DIRECTION BY MONITOR, INDEPENDENT REGULATOR OF NHS FOUNDATION TRUSTS IN RESPECT OF FOUNDATION TRUSTS' ANNUAL REPORTS

Monitor, the Independent Regulator of NHS Foundation Trusts, in exercise of powers conferred on it by paragraph 26 of Schedule 1 of the Health and Social Care (Community Health and Standards) Act 2003, hereby directs that the annual report of each foundation trust in England shall be in the form as laid down in the annual reporting guidance for NHS foundation trusts within the *NHS foundation trust Financial Reporting Manual* (FT FReM) that is in force for the relevant financial year.

Signed by authority of Monitor, the Independent Regulator of NHS foundation trusts

Signed:

Name: Dr. William Moyes (Chairman)

Dated: 8 November 2005

HEALTH AND SOCIAL CARE (COMMUNITY HEALTH AND STANDARDS) ACT 2003

DIRECTIONS BY MONITOR IN RESPECT OF NATIONAL HEALTH SERVICE FOUNDATION TRUSTS' ANNUAL ACCOUNTS

Monitor, the Independent Regulator of NHS Foundation Trusts, with the approval of HM Treasury, in exercise of powers conferred on it by paragraph 25(1) of Schedule 1 of the Health and Social Care (Community Health and Standards) Act 2003, hereby gives the following Directions:

1. Application and interpretation

(1) These Directions apply to NHS foundation trusts in England.

(2) In these Directions "The Accounts" means:

for an NHS foundation trust in its first operating period since authorisation, the accounts of an NHS foundation trust for the period from authorisation until 31 March; or

for an NHS foundation trust in its second or subsequent operating period following authorisation, the accounts of an NHS foundation trust for the period from 1 April until 31 March.

"the NHS foundation trust" means the NHS foundation trust in question.

2. Form of accounts

(1) The Annual Accounts submitted under paragraph 25 of Schedule 1 of the 2003 Act shall show, and give a true and fair view of, the NHS foundation trust's gains and losses, cash flows and financial state at the end of the financial period.

(2) The Annual Accounts shall meet the accounting requirements of the *NHS Foundation Trust Financial Reporting Manual*, (FT FReM) as agreed with HM Treasury, in force for the relevant financial year.

(3) The Balance Sheet shall be signed and dated by the chief executive of the NHS foundation trust.

(4) The Statement on Internal Control shall be signed and dated by the chief executive of the NHS foundation trust.

3. Statement of accounting officer's responsibilities

(1) The statement of accounting officer's responsibilities in respect of the accounts shall be signed and dated by the chief executive of the NHS foundation trust.

4. Approval on behalf of HM Treasury

(1) These directions have been approved on behalf of HM Treasury.

Signed by the authority of Monitor, the Independent Regulator of NHS foundation trusts

Signed:

Name: Dr. William Moyes (Chairman)

Dated: 8 November 2005

2. Chapter 2: Financial reporting requirements

- 2.1 Monitor has agreed that it will apply the principles outlined in the *Financial Reporting Manual (FReM)* when producing accounting guidance for NHS foundation trusts (Paragraph 1.1.3 of the *FReM*). As the *FReM* is produced for a range of central Government departments and bodies there are parts of it which are not applicable to NHS foundation trusts. This chapter therefore highlights the parts of the guidance which are applicable to NHS foundation trusts and provides additional guidance where necessary.
- 2.2 This manual and *FReM* follow UK Generally Accepted Accounting Practice (UK GAAP). Although UK GAAP has no formal definition it is usually taken to mean:
- the accounting and disclosure requirements of the Companies Act 1985 (as amended by the Companies Act 1989);
 - pronouncements by the Accounting Standards Board (ASB) – principally statements of standard accounting practice (SSAPs), financial reporting statements (FRSs) and urgent issue task force (UITF) abstracts; and
 - the body of accumulated knowledge built up over time and promulgated in text books, research papers and technical journals.
- 2.3 NHS foundation trust accounts should be prepared under the historic cost convention modified by the revaluation of tangible fixed assets and current asset investments..

International accounting standards

- 2.4 EU listed companies have been required to follow international accounting standards for accounting periods beginning on or after 1 January 2005. However, the Financial Reporting and Accounting Board (FRAB) have agreed with HM Treasury that the relevant authority for bodies following the requirements of the *FReM* will be UK accounting standards. This means that the convergence strategy proposed by the Accounting Standards Board to align UK accounting standards with international accounting standards will be followed.
- 2.5 The convergence strategy means that over the next few years there will be new accounting standards issued. Those preparing Annual Report and Accounts for NHS foundation trusts should therefore monitor the proposed changes to ensure that plans are drawn up with the most current accounting standards in mind. Discussions on future standards should be held regularly with auditors. A table has been provided in annex 2 to this chapter which summarises current proposals.

Users of the Annual Report and Accounts

- 2.6 The information presented in the financial statements should be adequate for the needs of the key users of the financial statements. Users include, but are not limited to:
- parliament, including relevant select committees;
 - Treasury;
 - Monitor;
 - the NHS foundation trust's board of governors;
 - the NHS foundation trust's management board and audit committee;
 - commissioning PCTs;
 - patients and their carers;
 - members of the NHS foundation trust; and
 - the taxpayer.
- 2.7 The exposure draft of the interpretation of the ASB's statement of principles for financial reporting for public benefit entities concludes that the main users of public benefit entities financial statements will be funders and financial supporters. Their requirements should be considered when producing the financial statements of NHS foundation trusts.
- 2.8 The ASB's statement of principles for financial reporting sets out the principles that the ASB believe should underlie the preparation and presentation of general purpose financial statements. The preparers of NHS foundation trust Annual Report and Accounts should familiarise themselves with these principles.

Extant accounting standards

- 2.9 The table below provides references to the guidance provided in *FReM* on extant accounting standards. However, where there is guidance relevant to NHS foundation trusts this is provided either in the table itself or elsewhere in this manual in which case a reference is provided. The final column of the table also provides guidance on whether the requirements of the standard or the application of the standard for NHS foundation trusts have changed since 2004/05. For NHS foundation trusts in their first year of operation a table in annex 3 to this chapter provides an indication of the differences between NHS foundation trust and NHS trust accounts.

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
Statements of Standard Accounting Practice (SSAP)			
4: Accounting for Government grants	5.2.36 – 5.2.40	NHS foundation trusts are not required to follow the amendments to SSAP 4 set out in <i>FReM</i> . They are not therefore required to maintain a Government grant reserve but are required to show capital grants as deferred income. Where an NHS foundation trust had a material Government grant reserve in 2004/05 this will be a change in accounting policy.	This is a change in policy for NHS foundation trusts since 2004/05. In 2004/05 there was a partial departure from the <i>Resource Accounting Manual</i> but the requirement to maintain a Government grant reserve was retained. This was not fully UK GAAP compliant and so in 2005/06 NHS foundation trusts are required to comply fully with the requirements of UK GAAP
5: Accounting for VAT	4.4.6-4.4.8	Fully applicable	No change

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
9: Stocks and long term contracts	6.3.1-6.3.4	Fully applicable. The impact of SSAP 9 on payment by results based contracts, in particular in relation to partially completed spells, is considered in chapter 3.	This is a change in application for NHS foundation trusts in relation to partially completed patient episodes only. Partially completed patient episodes were not treated as work in progress in 2004/05. From 2005/06, where there is a material year on year movement, partially completed patient spells should be accounted for as work in progress.
13: Accounting for research and development	5.3.5-5.3.7	Fully applicable but development costs should only be capitalised where there is a clearly defined project for which expenditure can be separately identified and which, when completed, will result in an asset of the NHS foundation trust being brought into use or a commercially viable project for which the NHS foundation trust retains the profits. Internal costs should not be capitalised when they relate to activities which can only be carried out in house. Contracts with companies to undertake clinical research and clinical trails should be accounted for in accordance with SSAP 9.	The standard was fully applicable in 2004/05 but a departure from RAM was allowed in that a separate line for research costs was not included in operating expenses. Where possible these should have been disclosed separately in accordance with the accounting policies. A line has been added for that disclosure in the 2005/06 FTCs but the departure from <i>FReM</i> is retained where the costs of research cannot be distinguished from the costs of patient care.
19: Investment properties	5.2.23 – 5.2.24	Fully applicable	No change
20: Foreign currency translation	4.3.10 – 4.3.10	Fully applicable	No change
21: Accounting for leases	5.2.29- 5.2.30	Fully applicable.	The <i>Capital Accounting Manual</i> in 2004/05 suggested a proxy rate when the interest rate implicit in the lease was unknown. This suggestion has been removed and NHS foundation trusts should comply with SSAP 21 when calculating an appropriate interest rate.
25: Segmental reporting	7.4.27	Fully applicable	No change

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
Financial Reporting Standard (FRSs)			
1 (revised): Cash flow statements	<i>FReM</i> guidance is not applicable to NHS foundation trusts	Fully applicable	No change
2: Accounting for subsidiary undertakings	The guidance in chapter 2 of <i>FReM</i> relates to departmental boundaries and is therefore not applicable to NHS foundation trusts.	Where NHS foundation trusts acquire subsidiary companies this standard is fully applicable.	No change
3: Reporting financial performance	7.4.14	Fully applicable	No change
4: Financial instruments	6.4.8 – 6.4.9	Fully applicable	No change
5: Reporting the substance of transactions	<i>FReM</i> guidance in chapter 2 is not applicable to NHS foundation trust's circumstances, 4.2.17	The principles of FRS 5 are applicable to NHS foundation trusts. Application note F of FRS 5 on PFI contracts is relevant to NHS foundation trusts but should be followed in conjunction with HM Treasury technical note 1 (revised) "How to account for PFI transactions". Application note G of FRS 5 on revenue recognition is relevant to NHS foundation trusts. For further guidance on income see chapter 3	No change
6: Acquisitions and mergers	5.4.2-5.4.4	Where an NHS foundation trust acquires a company the requirements of FRS 6 are fully applicable. Where an NHS foundation trust acquires or merges with another NHS foundation trust or an NHS Trust then separate guidance is being prepared and should be followed.	No change
7: Fair values in acquisition accounting	5.4.5 – 5.4.7	Monitor is issuing separate guidance on mergers and acquisitions which will include guidance on FRS7	No change
8: Related party disclosures	7.4.62 – 7.4.64	Fully applicable	No change

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
9: Associates and joint ventures	<i>FReM</i> guidance in chapter 2 is not applicable to NHS foundation trust's circumstances	Where NHS foundation trusts have entered into associations or joint ventures then FRS 9 is fully applicable. Traditionally, NHS bodies have entered into pooled budget arrangements which are joint arrangements which are not entities (JANEs) under FRS 9. There is no UK GAAP requirement for the memorandum account required by the Health Act to be included in the statutory accounts of any of the members of the JANE. NHS foundation trusts can therefore choose whether or not to produce this information. The approach adopted must be agreed with the NHS foundation trust's auditors	No change
10: Goodwill and intangible assets	5.3.2-5.3.4	Fully applicable	No change
11: Impairment of fixed assets and goodwill	5.2.31 – 5.2.35	Fully applicable to NHS foundation trusts 5.2.34 - allows bodies to hold a negative revaluation reserve in certain circumstances. NHS foundation trusts are required to comply with FRS 11 in full and will therefore charge impairments to the I&E account where there is no balance on the revaluation reserve relating to the impaired asset unless the particular circumstances set out in FRS 15 are met.	No change
12: Provisions, contingent assets and contingent liabilities	6.6.2 – 6.6.9	FRS 12 is fully applicable to NHS foundation trusts. The only additional requirement for NHS foundation trusts is that where the time value of money is material the provision must be discounted using the real discount rate set by HM Treasury. From 1 April 2005 this rate is 2.2%	No change

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
13: Derivatives and other financial instruments	7.4.40 – 7.4.43	<p>Applicable to NHS foundation trusts (2005/06 will be the final year for FRS 13 as FRAB has stated that FRS 25 and 26 will apply from 1 April 2006).</p> <p>PDC should be measured at historic cost and the following should be disclosed:</p> <ul style="list-style-type: none"> • opening and closing balances; • acquisitions and disposals; and • transfers of assets to or from fixed asset investments. <p>All other equity and non-equity shares should be reported at market value and the following should be disclosed:</p> <ul style="list-style-type: none"> • opening and closing balances; • revisions arising from revaluations during the year; • acquisitions and disposals; • transfers of assets to or from fixed asset investments; • opening and closing balances of any provisions for diminution in value; and • details of movements in provisions for diminution in value. <p>Loans should be stated at fair value based on the discounted value of the future cash flows expected to be received from the loan.</p> <p>Short term debtors and creditors, as defined in FRS 13, should be excluded from disclosure.</p>	No change

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
15: Tangible fixed assets	5.2.2 – 5.2.22	<p>FRS 15 is fully applicable to NHS foundation trusts. Further guidance is to be found in chapter 3.</p> <p>NHS foundation trusts will not hold infrastructure or heritage assets. Therefore, these sections of <i>FREM</i> are not applicable to NHS foundation trusts.</p> <p>This manual departs from <i>FREM</i> in the following instances:</p> <p>5.2.5a – NHS foundation trusts are required to have interim valuations of land and buildings in the third year of the five yearly revaluation cycle. This valuation has to be undertaken by a professional valuer.</p> <p>5.2.5b - Tangible fixed assets, other than land and buildings, also have to have an interim valuation but this may be achieved through the use of indexation.</p> <p>5.2.5c - Gains on assets financed by Government grant are credited to the revaluation reserve. <i>FReM</i> requires such gains to be credited to the Government grant reserve but NHS foundation trusts do not hold such reserves.</p> <p>5.2.5d – losses on revaluation will be accounted for in accordance with the requirements of FRS 11</p> <p>5.2.6c – NHS foundation trusts should not subject land and building assets to indexation each and every year.</p> <p>5.2.17 – NHS foundation trusts should not transfer assets to other public sector bodies for nil consideration. These transfers should be done as any other sale or purchase of fixed assets.</p>	
16: Current tax	4.4.2-4.4.3	Fully applicable if NHS foundation trusts are subject to the tax regime.	This will be a new standard for NHS foundation trusts to apply if they are subject to corporation tax

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
17: Retirement benefits	6.5.4 – 6.5.5 Chapter 8	<p>Most NHS foundation trust staff will be members of the NHS pension scheme. This is a defined benefit scheme but the assets and liabilities of the scheme cannot be attributed to the member bodies of that scheme. NHS foundation trusts therefore account for transactions with the NHS pension scheme as if it were a defined contribution scheme. NHS foundation trusts therefore have to disclose the fact that the scheme is a defined benefit scheme which prepares its own scheme statements and any information about the existence of the surplus or deficit and the implications of that surplus or deficit on the employer.</p> <p>If any NHS foundation trust is a member body of any other pension scheme, for example, a local authority superannuation scheme then it must apply FRS 17 In full to transactions with that scheme.</p>	No change
18: Accounting policies	2.3.1 to 2.3.4	<p>This standard is fully applicable to NHS foundation trusts. Where it is necessary to choose between accounting policies, the standard requires entities to select the most appropriate in order to provide a true and fair view. NHS foundation trusts should firstly consider whether this manual requires that all NHS foundation trusts adopt a particular policy. Where there is no guidance in the manual or <i>FReM</i> then the NHS foundation trust should follow the requirements of the standard.</p> <p>Additional guidance in relation to:</p> <ul style="list-style-type: none"> • changes in accounting policy; and • going concern, <p>can be found in chapters 3 and 4.</p>	No change
19: Deferred tax	4.4.4-4.4.5	Fully applicable if NHS foundation trusts are subject to the tax regime.	This will be a new standard for NHS foundation trusts to apply if they are subject to corporation tax
20 (IFRS2): Share based payment		Not applicable	
21 (ISA 10): Events after the balance sheet date		Fully applicable	This is a new standard but, in practice, there will be no change to existing practice.

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
22 (IAS 33): Earnings per share		Not applicable	
23 (IAS 21): The effects of changes in foreign exchange rates		Not applicable	
24 (IAS 29): Financial reporting in hyperinflationary economies		Not currently applicable	
25 (IAS 32): Financial instruments: Disclosure and presentation		Deferred by FRAB for one year so will be applicable in 2006/07	
26 (IAS 39): Financial instruments: measurement		Deferred by FRAB for one year so will be applicable in 2006/07	
27: Life assurance		Not applicable	
Reporting Standard (RS)			
RS 1: Operating and financial review	7.2.9 – 7.2.17	Fully applicable	This is a new standard and its impact is discussed in chapter 4
Urgent Issues Task Force (UITF) Abstracts			
4: Presentation of long term debtors in current assets	6.4.2-6.4.3	Fully applicable	No change
5: Transfers from current assets to fixed assets	6.4.4 – 6.4.6	Fully applicable	No change
9: Accounting for operations in hyper-inflationary economies		Not applicable	
11: Capital instruments: issuer call options		Not applicable	
15: Disclosure of substantial acquisitions		Not applicable	
19: Tax on gains and losses on foreign currency		Not applicable	

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
borrowings that hedge an investment in a foreign enterprise			
21: Proposed introduction of the euro	4.3.12 – 4.3.14	Fully applicable	No change
22: The acquisition of a Lloyd's business		Not applicable	
23: Application of the transitional rules in FRS 15		No longer applicable	
24: Accounting for start up costs	5.2.41-5.2.42	Fully applicable	No change
25: National Insurance contributions on share option gains		Not applicable	
26: Barter transactions for advertising	4.3.15 – 4.3.17	Fully applicable	No change
27: Revisions to estimates of the useful economic life of goodwill and intangible assets	5.3.8-5.3.9	Fully applicable	No change
28: Operating lease incentives	5.2.43-5.2.44	Fully applicable	No change
29: Website development costs	5.2.45-5.2.47	Fully applicable. However, as NHS foundation trusts cannot deliver healthcare via the internet it is not expected that capitalisation of such costs will be allowable within the requirements of this abstract.	No change
30: Date of award to employees of shares or rights to shares		Not applicable	

Accounting standard	FReM reference	Applicability, additional guidance and reference to relevant guidance in this manual	Revisions since 2004/05
31: Exchanges of business or other non-monetary assets for an interest in a subsidiary, joint venture or associate	5.2.49- 5.2.50	Fully applicable	No change
32: Employee benefit trusts and other intermediate payment arrangements		Not applicable	
33: Obligations in capital instruments		Not applicable	
34: Pre-contract costs	4.3.18-4.3.19	Fully applicable	No change
35: Death in service and incapacity benefits	6.5.6-.6.57	Fully applicable	No change
36: Contracts for sales of capacity		Not applicable	
37: Purchases and sales of own shares		Not applicable	
38: Accounting for ESOP trusts		Not applicable	
39: Members' shares in co-operative entities and similar instruments		Not applicable	
40: Revenue recognition and service contracts	4.2.18 – 4.2.21	Fully applicable	No change

Annex 1 to chapter 2

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.

Government departments	NHS foundation trusts
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*:

FReM requirement	NHS foundation trust accounting
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.
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.

FReM requirement	NHS foundation trust accounting
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.

Annex 2 to chapter 2

Summary of current exposure drafts issued by the Accounting Standards Board

These exposure drafts can be found on the ASB's website

www.frc.org.uk/asb/publications/documents.cfm?cat=3

	Key dates	Summary of impact
FRED 25 <i>Related Party Disclosures</i>	The consultation period was in 2002. The ABP propose to issue the standard in December 2005.	The proposals will change the definitions of related parties. There is no requirement to disclose the names of related parties other than a controlling party.
FRED 28 <i>Reporting Inventories Construction and Service Contracts</i>	The consultation period was in 2002. The ABP propose to issue the standard in December 2005.	The proposals will replace SSAP 9 <i>stocks and long term contracts</i> but there are no major changes to the current standard.
FRED 35 Corresponding amounts	<p>Consultation deadline was 10 June 2005 so the ABP are considering the comments received.</p> <p>If adopted the proposals will be applicable to accounting periods which begin on or after 1 January 2005 and which have not ended before 1 October 2005.</p>	<p>The proposals in this FRED are:</p> <ul style="list-style-type: none"> • corresponding amounts should be shown for items in the primary financial statements and notes to the financial statements; • where the corresponding amounts are not directly comparable with the amount to be shown in respect of the current financial year, they should be adjusted; and • most of the exemptions from showing corresponding amounts given in the Companies Act 1985 should be maintained
ED on amendment to FRS 26 <i>Financial Instruments: Measurement</i>	<p>Consultation deadline was 31 July 2005 so the ABP are considering comments received.</p> <p>It is proposed that the revised standard will apply to accounting periods beginning on or after 1 January 2007, with earlier adoption permitted. However, there will be some transitional arrangements.</p>	<p>This amendment would extend the scope of FRS 26 to unlisted companies. As FRAB plan to include the requirements of FRS 26 in the <i>FReM</i> this standard will apply to NHS foundation trusts in 2006/07.</p> <p>This amendment would also adopt into UK GAAP the IAS 39 requirements in relation to the recognition and de-recognition of financial assets. FRS 5 substance of transactions would then only apply to the recognition and derecognition of non-financial assets and liabilities.</p> <p>One of the main consequences of the implementation of this exposure draft will be that the linked presentation of financial assets and liabilities will no longer be available. This is unlikely to have an impact on NHS foundation trusts.</p>

	Key dates	Summary of impact
FRED 36 Business combinations (IFRS 3) amendments to FRS 2 <i>Accounting for Subsidiary Undertakings</i> (parts of IAS 27 consolidated and separate financial statements)	Consultation deadline - 28 October 2005 The implementation date of this FRED is part of the consultation	If these proposals are adopted then they would: <ul style="list-style-type: none"> introduce the revised IFRS 3 <i>Business Combinations</i> as a new UK IFRS-based standard which would replace FRS 6 <i>Acquisition and Mergers</i> and FRS 7 <i>Fair Values in Acquisition Accounting</i>. amend FRS 2 <i>Accounting for Subsidiary Undertakings</i> <p>The standard would alter the way that acquisitions are valued and recognised. Any NHS foundation trust planning to establish subsidiaries or acquisitions should consider the changes proposed by this standard.</p>
FRED 37 <i>Intangible Assets</i> (IAS 38) and FRED 38 <i>Impairment of Assets</i> (IAS 36).	Consultation deadline - 28 October 2005 The proposed implementation date is 1 January 2007	<ul style="list-style-type: none"> If these proposals are adopted they would replace: FRS 10 <i>Goodwill and Intangible Assets</i>; SSAP 13 <i>Research and Development</i>; and FRS 11 <i>Impairment of Fixed Assets and Goodwill</i>. <p>The proposals would also amend FRS 15 <i>Tangible Fixed Assets</i> and SSAP 4, <i>Accounting for Government Grants</i></p> <p>The standard would amend the definition of intangible asset especially in relation to goodwill. It also requires capitalisation of development costs if certain criteria are met. One impact on NHS foundation trusts would be the proposal to amend FRS 15 to amend the way downward revaluations are reported and the method used to value residual interests.</p>
FRED 39 Amendments to FRS 12 <i>Provisions, Contingent Liabilities and Contingent Assets</i> and Amendments to FRS 17 <i>Retirement benefits</i>	Consultation deadline - 28 October 2005 The proposed implementation date is 1 January 2007	These proposals revise the terminology currently used. They also amend the probability recognition criterion.
ED on the statement of principles for financial reporting – proposed interpretation for public benefit entities”.	Consultation deadline 30 November 2005	See chapter 4 for comment on this proposal.

Annex 3 to chapter 2

Main differences between NHS trust and NHS foundation trust accounts

Main statements	
Income and expenditure account	Required for NHS foundation trusts although the NHS trust pro forma does not take into account subsidiary, joint ventures or associate arrangements or taxation which may have to be paid by NHS foundation trusts. This comment applies to all of the notes.
Balance sheet	Required for NHS foundation trusts, with the above amendments.
Statement of total recognised gains and losses	Required for NHS foundation trusts.
Cash flow statement	Required for NHS foundation trusts but additional sections may need to be added to recognise the different financing arrangements for NHS foundation trusts.
Notes to the accounts	
1. Accounting policies	Required for NHS foundation trusts although the note will have to be adapted to suit the policies adopted by the NHS foundation trust. An example set of policies is appended to chapter 3. The accounting policies in relation to: <ul style="list-style-type: none"> • valuation of fixed assets; • charging of impairments; and • accounting for Government grants are different to the policies adopted by NHS trusts under direction from the Secretary of State.
2. Segmental reporting	Required for NHS foundation trusts. NHS foundation trusts may wish to show their non-core healthcare services as segments, if the NHS foundation trust does not have any segments to report then this note may be omitted from the accounts..
3. Income from activities	Required for NHS foundation trusts. However, the analysis may be different as NHS foundation trusts may chose to analyse income by activity rather than source as this is the requirement for the quarterly returns to Monitor. NHS foundation trusts are also required to disclose their income from mandatory and non-mandatory services.
4. Other operating income	Required for NHS foundation trusts. NHS foundation trusts will also have to include a note to disclose private patient income and the cap on such income
5. Operating expenses	Required for NHS foundation trusts.
6. Staff costs and numbers	Required for NHS foundation trusts and this note will include senior managers' remuneration disclosures.
7. Better payment practice code	Not required for NHS foundation trusts although it can be included if the NHS foundation trust considers it best practice. It should be included in the Annual Report of the NHS foundation trust if it is not included in the accounts.
8. Profit on disposal of fixed assets	Required for NHS foundation trusts.
9. Interest payable and similar charges	Required for NHS foundation trusts and NHS foundation trusts will have to disclose their performance against the <i>Prudential Borrowing Code</i> .
10. Intangible fixed assets	Required for NHS foundation trusts.
11. Tangible fixed	Required for NHS foundation trusts. The arrangements for the valuation tangible fixed assets

Main statements	
assets	will be different for NHS foundation trusts as assets are not indexed annually but revalued every 5 years with an interim valuation every 3 years.
12. Stocks and work in progress	Required for NHS foundation trusts. NHS foundation trusts will include any work in progress relating to partially completed spells in this note.
13. Debtors	Required for NHS foundation trusts.
14. Investments	Required for NHS foundation trusts.
15. Creditors	Required for NHS foundation trusts.
16. Provisions for liabilities and charges	Required for NHS foundation trusts.
17. Movements on reserves	Required for NHS foundation trusts. As NHS foundation trusts are required to charge any impairments on bringing an asset into use to the I&E account it is not expected that an NHS foundation trust would have a negative revaluation reserve. The exception to this is if, on establishment, an NHS foundation trust has a negative opening revaluation reserve.
18. Notes to the cash flow statement	Required for NHS foundation trusts. However, note 18.3 will not be necessary in the NHS foundation trust accounts.
19. Capital commitments	Required for NHS foundation trusts.
20. Post balance sheet events	Required for NHS foundation trusts.
21. Contingencies	Required for NHS foundation trusts.
22. Movements in PDC	Not required.
23. Financial performance	Not required but should be replaced by a statement of performance against the NHS foundation trust's own financial targets, for example, private patient income, the prudential borrowing limit.
24. Related party transactions	Required for NHS foundation trusts.
25. Private finance transactions	Required for NHS foundation trusts.
26. Pooled budget arrangements	Not required by RAM or by UK GAAP and therefore not necessary for NHS foundation trusts unless the pooled budget agreement specifies that the memorandum account will be included in the accounts.
27. Financial instruments	Required for NHS foundation trusts.
28. Third party assets	Required for NHS foundation trusts.
29. Intra-Government balances	Required for NHS foundation trusts
30. Losses and special payments	Required for NHS foundation trusts

3. Chapter 3: Financial statements

Introduction

- 3.1 NHS foundation trusts have discretion over the form of financial statements that they consider to be most appropriate to meet their own reporting needs, as long as the requirements of UK GAAP, as supplemented or amended by this manual, are met. A well presented set of accounts will include all of the information required by the reader of the accounts to understand the financial position of the NHS foundation trust for the period. It will include only information relevant to its situation and will be appropriately cross referenced.
- 3.2 NHS foundation trusts are, however, required to complete foundation trust consolidation reports (FTC forms), which need to be prepared on a consistent basis in order to support the preparation of consolidated accounts of NHS foundation trusts.
- 3.3 This chapter provides guidance on:
- the application of UK GAAP to NHS foundation trusts and additional disclosures, beyond the requirements of UK GAAP, that are mandatory for all NHS foundation trusts in their financial statements; and
 - the completion of FTC forms.
- 3.4 This chapter does not provide guidance on UK GAAP where there are no specific application issues for NHS foundation trusts. It is therefore essential that NHS foundation trusts review relevant accounting requirements when preparing their financial statements.
- 3.5 NHS foundation trusts must, at a minimum, ensure that they include in their accounts an income and expenditure account, a balance sheet, a statement of total recognised gains and losses and a cash flow statement. These are the four primary statements. NHS foundation trusts must include the headings provided in the FTC forms for all the primary statements. However, there is no requirement to include in the accounts notes with nil entries or lines in notes which are not applicable to that individual NHS foundation trust.
- 3.6 NHS foundation trusts must also include notes to the accounts corresponding to those of notes 2 to 25.3 inclusive of the FTC forms (FTC05 to FTC19A inclusive). The content of these notes, however, need not follow the format of the FTC forms, as long as the NHS foundation trust complies with UK GAAP and the additional requirements of this manual. The FTC forms will have to be consistent with the accounts. This means that they should be prepared using the same accounting policies and the same amounts should be disclosed in both the accounts and FTCs. The only difference between the accounts and FTCs will be where an NHS foundation trust has an acquired or discontinued operation which has been transferred from or to another public sector body. In the accounts this will be disclosed as discontinued or acquired but in the FTC should be shown as continuing (see paragraph 3.16).
- 3.7 Appendices to this manual contain a set of example accounting policies that could be used for an NHS foundation trust's financial statements (appendix A) and the FTC forms (appendix B).

Materiality

- 3.8 The Accounting Standards Board's (ASB's) foreword to accounting standards states that standards need not be applied to immaterial items. The process of preparing accounts gives rise to two types of materiality judgements:
- whether an item needs to be disclosed; and/or
 - what margin of error, if any, is acceptable in the amount attributed to an item.
- 3.9 The ASB's statement of principles for financial reporting (3.28-32) defines and explains materiality as a threshold quality which is demanded of all information given in the financial statements and provides further information on the concept of materiality if this should be required.

Group accounts

- 3.10 NHS foundation trusts with subsidiary companies should note that they will be required to produce separate sets of accounts for their subsidiaries, compliant with UK GAAP and the Companies Acts, and will also need to produce consolidated group accounts.

Selection of accounting policies

- 3.11 An NHS foundation trust must choose the accounting policies that it judges to be most appropriate to its particular circumstances for the purpose of giving a true and fair view. Appendix A to this chapter includes model accounting policies but these must be reviewed by each NHS foundation trust to ensure that they are the most appropriate to its particular circumstances.
- 3.12 The ASB's FRS 18 is a particularly important document to consider in this context. It states that accounting policies are:
- “Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through
- recognising;
 - selecting measurement bases for, and
 - presenting
- assets, liabilities, gains, losses and changes to shareholders' funds.”
- 3.13 Changes in accounting policy will require an adjustment to prior year financial statements under FRS 3.
- 3.14 Where an NHS foundation trust has a change in accounting policy the prior year FTC forms will have to be restated and submitted with the current year FTC forms. This is so that the consolidation process can take account of the change in opening balances for the year. Where an NHS foundation trust has to make a prior period adjustment (for any reason other than the adjustment of 2004-05 closing government grant reserve balances), they should inform Monitor so that the appropriate information can be collected for consolidation.

Income and expenditure account

Acquisitions and discontinued operations

- 3.15 NHS foundation trusts should review their activities against FRS 3 to assess whether they are required to make disclosures in relation to acquisitions and discontinued operations.
- 3.16 Even if such disclosures are made in the financial statements, they should not affect the FTC forms. For the purposes of consolidation, acquisitions and discontinued operations that are acquired from or disposed of to other bodies within the scope of *Whole of Government Accounts* should be treated as though they were continuing operations within the FTC forms. Acquisitions from and discontinued operations disposed of to bodies outside the scope of *Whole of Government Accounts*, or discontinued operations that cease entirely, should also be treated as continuing operations within the FTC forms, but should be disclosed on the free text sheet, providing the details required by FRS 3.

Income from activities

- 3.17 Income should be classified as income from activities when it is earned under contracts with NHS bodies and others for the provision of healthcare services. Income from non-patient-care services should be classified as “other operating income”. Income arising from the activities of subsidiaries consolidated into the accounts of the NHS foundation trust should be classified on the same basis, regardless of how it is classified in the accounts of the subsidiary.
- 3.18 Where “other income” is material additional disclosure should be made in the accounts as to its source. Where it is significant but not material this disclosure can be made in the annual report rather than the accounts.

Operating expenses – staff and directors’ costs

- 3.19 The operating cost note should include separate lines disclosing staff costs and directors’ costs. Only the costs relating to executive and non-executive directors should be included in the directors’ costs line. All other staff costs should be included in the staff costs line.
- 3.20 The amounts disclosed should be the total paid or payable in the year to directors (executive and non-executive) or staff in respect of their services to the NHS foundation trust. The figure excludes redundancy and injury benefit costs but includes:
- employer’s National Insurance contributions (NIC);
 - employer’s pension costs; and
 - early retirement costs, whether lump sum or otherwise.
- 3.21 Redundancy costs and injury benefit costs should be included in “other expenses”. If material, then separate disclosure of the nature of these payments should be made. If significant but not material then the NHS foundation trust may, for transparency, disclose the breakdown of other costs in the Annual Report.
- 3.22 The total of the staff costs line plus the directors cost line in the operating expenses note will equal the total of the staff costs note to the accounts less the costs of executive directors. The separate staff costs note includes the costs of executive directors but does not include non-executive directors. Total directors costs will not reconcile to the total of salary and pension entitlements of senior managers (‘the Greenbury Note’), since the latter is not restricted to directors and also excludes employers’ NI and superannuation contributions.

Audit fees

- 3.23 This is the total of fees paid or payable to the external auditor for the financial year in question and should be analysed between audit services, further assurance services and other services in accordance with the ICEAW *Technical Release 24/03*, which also provides sub-headings within the three main headings into which auditors’ remuneration should be analysed.

3.24 Fees for work done by external auditors under Monitor’s *NHS Foundation Trusts Audit Code* should be disclosed as “Audit services – statutory audit”. Work by external auditors mandated by the Healthcare Commission should be disclosed as “Audit services – audit-related regulatory reporting”, although NHS foundation trusts may also wish to disclose that this is work mandated by the Healthcare Commission.

PDC dividends payable

3.25 The disclosure of PDC dividends payable on the face of the income and expenditure account is the total of PDC dividends payable by the NHS foundation trust for the given year.

3.26 Legislation requires that NHS foundation trusts should pay a PDC dividend on the same basis as NHS trusts. The Department of Health defines the repayment basis which is currently 3.5%. This charge of 3.5% is therefore made on average relevant net assets held in the year.

3.27 Average relevant net assets are calculated by adding the opening and closing balances of relevant net assets for the year (as calculated below) and dividing by 2. Opening relevant net assets are to be calculated from values carried forward from the previous year. Closing relevant net assets are calculated from values reported at the balance sheet date, after all the year’s transactions and valuations have taken place.

3.28 The calculation of relevant net assets is as follows:

Total public dividend capital and reserves	X
Less donated asset reserve	(X)
Less cash balances in Paymaster accounts	<u>(X)</u>
	X
	<u>==</u>

3.29 The basis of the calculation of PDC dividend payable is the subject of ongoing discussions with the Department of Health. These discussions will be finalised during the consultation period.

Notes to the income and expenditure account

Segmental reporting

3.30 The FTC forms assume that any segmental analysis will be analysed between healthcare and other activities. It is possible, however, that other segmental classifications may be appropriate under SSAP 25. For instance, healthcare may itself be divided into more than one segment. NHS foundation trusts should also consider whether mandatory and non-mandatory services represent distinct business segments in accordance with FRS 3 and report accordingly. The accounts should be prepared with the segmental analysis that best presents a true and fair view of the NHS foundation trust’s activities.

3.31 A cost that is directly attributable to an individual segment should be allocated to that segment. Common costs are costs relating to more than one segment. In most cases it will be possible to apportion these reasonably between the segments, in which case the apportioned costs should be netted off within the first line of surplus/deficit figures. For instance the cost of support staff may be apportioned between the segments according to the amount of time spent on the different activities. Where common costs cannot be reasonably apportioned, they should be deducted from the total of the segment results.

3.32 Net assets (if any) are the average relevant net assets for the segment, calculated in the same way as net assets are calculated for the purpose of calculating the dividend on PDC. Assets and liabilities used jointly by the two segments should be allocated to the segments on a reasonable basis.

3.33 The segmental analysis of income and the surplus/deficit before interest should clearly distinguish between that of the group and that of its associates and joint ventures.

3.34 Even when an NHS foundation trust has no segments meeting the FRS 25 definition the FTC form must be completed –the healthcare column should be completed with the total income and expenditure of the NHS foundation trust. There is no requirement for segmental analysis to be included in the accounts in this case.

Income from activities arising from mandatory and non-mandatory services

3.35 NHS foundation trusts should disclose the level of income from activities arising from mandatory and non-mandatory services (as set out in the NHS foundation trust’s Terms of Authorisation) in a separate note to the accounts. This note should equal the total income from activities set out on the face of the income and expenditure account.

Private patient income

3.36 Section 15 of the 2003 Act requires that the proportion of private patient income to the total patient related income of NHS foundation trusts should not exceed its proportion whilst the body was an NHS Trust in 2002/03 (“the Private Patient Cap”). If the predecessor NHS Trust was not in existence in 2002/03 the proportion in the first year of existence of the predecessor NHS Trust should be used. The NHS foundation trust’s Private Patient Cap is set out in the NHS foundation trust’s Terms of Authorisation. If the cap is amended by Monitor subsequent to authorisation then the revised cap should be disclosed with a narrative disclosure as to why the change has been made.

3.37 The following table should be included in the notes to the income and expenditure account:

	200x/xx	2002/03 [or state base year]
Private patient income		
Total patient related income		
Proportion (as a percentage)	%	%

3.38 Private patient income is defined as patient related income arising from charges imposed by the foundation trust in respect of goods and services provided by the foundation trust directly to patients other than for the purposes of the National Health Service. For the avoidance of doubt, income receivable in relation to NHS patients but not receivable from NHS bodies (e.g. Road Traffic Act income) and income for EEA and other overseas patients treated under reciprocal healthcare agreements are not private patient income.

3.39 Patient related income includes the following:

- income received from PCTs and specialist commissioners for contracted patient care services;
- income received from other NHS trusts for contracted patient care services;
- income received from the Department of Health for patient care services;
- non NHS private patient income;
- other income for patient care services (including Road Traffic Act income, the Ministry of Defence, local authorities, the prison service, etc.); and
- any amounts received from SHAs for patient care services, including income for overseas patients treated under reciprocal agreements.

3.40 Any income receivable from NHS bodies that is not related to the provision of healthcare and falls outside the scope of contracts for patient care should not be included in the calculation of patient related income.

3.41 NHS foundation trusts should also include within this note narrative explaining that section 15 of the 2003 Act requires that the proportion of private patient income to the total patient related

income of NHS foundation trusts should not exceed its proportion whilst the body was an NHS Trust in 2002/03 or the base year.

Staff costs

3.42 These are defined to include:

all persons with a contract of employment with the NHS foundation trust (this will include executive directors but exclude non-executive directors);

the costs of staff recharged by another organisation where no element of overhead is included i.e. where the staff costs are shared between the NHS foundation trust and other bodies;

staff agency payments i.e. payments to an agency for the employment of staff where the staff remain employees of the agency;

contract staff i.e. where the NHS foundation trust has control over numbers and qualifications of staff (in contrast to a service obtained under contract); and

staff on secondment or on loan from other organisations.

3.43 This note should make the following disclosures in relation to staff costs:

salaries and wages;

social security costs;

employer contribution to NHS Pensions Agency; and

other pension costs.

3.44 The note should also include an analysis of average staff numbers. These should be disclosed in the categories defined in DSCN 19/200.

3.45 A footnote to this note should disclose the total employer pension contribution payable for the year (with a prior period comparison where possible).

Remuneration of senior managers

3.46 The definition of “senior managers” is ‘those persons in senior positions having authority or responsibility for directing or controlling the major activities of the NHS foundation trust’. The chief executive should be asked to confirm whether this covers more than the executive and non-executive directors of the NHS foundation trust (who should be treated as senior managers as a matter of course).

3.47 This note covers all those individuals who hold or have held office as a senior manager of the NHS foundation trust during the reporting year. It is irrelevant that:

an individual was not substantively appointed (holding office is sufficient, irrespective of defects in appointment); or

an individual’s title as director included a prefix such as “temporary” or “alternate”; or

an individual was engaged via a corporate body, such as an agency, and payments were made to that corporate body rather than to the individual directly.

3.48 The disclosures in this note can only be made with the prior consent of the individuals concerned unless their contract of employment specifically allows disclosure to be made. Consent can be obtained once for all future accounting periods. For new appointments it may be made a condition on appointment. Consent to disclose pension and salary details should always be sought from departing senior managers on their final day of service. The chair and non-executive members of NHS boards are public appointees and as such, information about the remuneration payable to them is already available to the public as required by the Commissioner for Public Appointment’s *Code of Practice*.

- 3.49 Where an individual has relied on the Data Protection Act 1998 and withheld his/her consent then the words “consent to disclosure withheld” should be disclosed against the name(s) of the appropriate individual(s) in the table.
- 3.50 Where a senior manager withholds consent for the disclosure of certain information then the information contained in the rest of the note can still be included. A disclosure as to which information has been withheld should be made e.g. where a senior manager has withheld consent for his/her salary to be published the words ‘consent to disclose salary withheld’ should appear against his/her name.
- 3.51 The following information should be disclosed for each senior manager:
- name and title;
 - other remuneration;
 - golden hellos;
 - compensation for loss of office (this is required to be the subject of a separate disclosure under UK GAAP);
 - benefits in kind; and
 - pension disclosures.

Salary

- 3.52 Salary is the gross salary paid/payable to the individual and it is suggested that this be shown in £5,000 ranges. Where an individual held a contract of employment for the entire financial year but was only a senior manager for six months, it is the remuneration for six months which should be shown. Where there has been overlap in a post, for example where there have been two finance directors for a month, both must be shown.
- 3.53 Salary includes:
- all amounts paid or payable by the NHS foundation trust to the individual including recharges from any other health body;
 - the gross cost of any arrangement whereby a senior manager receives a net amount and a NHS foundation trust pays income tax on their behalf;
 - any financial loss allowances paid in place of remuneration;
 - geographical allowances such as London weighting; and
 - performance related bonuses.
- 3.54 Salaries should exclude:
- employers’ National Insurance and superannuation contributions;
 - recharges to any other health body;
 - reimbursement of out-of-pocket expenses;
 - reimbursement of “travelling and other allowances” (paid under determination order) including home to work travel costs;
 - golden hellos and compensation for loss of office; and
 - any amount paid which the senior manager must subsequently repay. However, these amounts must be disclosed in the next accounts, and distinguished from other remuneration, where a senior manager is subsequently released from the liability or a loan to a senior manager remains unpaid for two years after the due date.

Other remuneration

- 3.55 Payments should be shown here (again in bands of £5,000) where a director holds two contracts of employment or some other distinction between duties as a director and other duties can be

soundly established. This may include payments to clinical directors for the performance of clinical duties.

Golden hellos

- 3.56 These include payments made as an incentive for particular staff to join the NHS foundation trust.

Compensation for loss of office

- 3.57 This is the amount of any compensation paid or payable to senior managers or past senior managers in respect of loss of office.

Benefits in kind

- 3.58 This covers the monetary value of benefits in kind, such as the provision of a car. This category also includes expense allowances (not paid under determination order) where subject to income tax. A narrative disclosure detailing the nature of benefits in kind should be given after the table. Please note that this disclosure should be made in £00 rather than £000.

Pension disclosures

- 3.59 This will apply to executives only as non-executive directors do not receive any pensionable remuneration.
- 3.60 *The Directors Remuneration Report Regulation 2002* (SI 2002 No 1986) made under the Companies Act 1985 introduced into company law new disclosure requirements relating to senior managers' salary and pension information. Although not all the requirements of the SI are relevant to the public sector, *FReM* includes the requirement to disclose cash equivalent transfer values (CETVs) of pensions at the year end (in bands of £1000), the real increase in the CETVs in the year (in bands of £1000), the value of automatic lump sums at the year end (in bands of £2500), and the real increase in year in the value of automatic lump sums (in bands of £2500).
- 3.61 The CETV is the actuarially assessed capitalised value of the pension scheme benefits accumulated by a member at a particular point in time. The benefits valued are the member's accumulated benefits and any contingent spouse's pension payable from the scheme. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.
- 3.62 The accrued benefits derived from the member's purchase of added years of service and any 'transferred-in' service must be included in all the pension calculations.
- 3.63 From 2005-06 all the information required in the senior managers' pension table will be provided by the NHS Pensions Agency (NHSPA). The request for information from the NHSPA must be made by the NHS foundation trust by **20 March 2006** providing complete information at that time. Where the NHSPA receives complete information by the due date the NHSPA will provide the NHS foundation trust with all the required disclosure information by **5 May 2006**.
- 3.64 Detailed guidance regarding the end of year procedures for requesting information from the NHS Pension Agency can be found on the publications section of Monitor's website www.monitor-nhsft.gov.uk.
- 3.65 Where the NHS foundation trust has senior managers who are members of a different pension scheme the disclosure information should be requested in good time from the scheme.

Early retirements due to ill-health

- 3.66 The number of, and average additional, pension liabilities for individuals who retired early on ill-health grounds during the year must be disclosed in a note to the income and expenditure account. The amount entered should be the figure supplied to the NHS foundation trust by the NHS Pensions Agency.

Profits and losses on disposal of fixed assets

- 3.67 These should be analysed in a note to the income and expenditure account between profits or losses arising from the disposal of protected and non-protected assets.

Private finance transactions

- 3.68 PFI transactions should be accounted for and disclosed in accordance with Treasury Technical Note 1, "How to account for PFI transactions".

Related party transactions

- 3.69 FRS 8 is considered by HM Treasury to also apply to transactions between NHS foundation trusts and Government departments and agencies of Government departments. Further, it is prudent to assume that transactions between NHS foundation trusts and the related funds held on trust also fall within the scope of FRS 8. Such transactions are routine and numerous, so disclosure of these relationships in general terms is acceptable, no information about the value of transactions need be given.
- 3.70 Governors of NHS foundation trusts should be considered as related parties.

Losses and special payments

- 3.71 A note disclosing information on losses and special payments should be included in the accounts. This note should disclose:
- the total number and value of losses and special payment cases;
 - the number and value of clinical negligence, fraud, personal injury, compensation under legal obligation and fruitless payment cases where the net payment for the individual case exceeds £100,000;
 - a statement that these payments are the cash payments made in the year and are not calculated on an accruals basis; and
 - any other explanation considered necessary.
- 3.72 Guidance on the definitions of losses and special payments can be found in section 18.2 of the Government Accounting Manual (available on the Government Accounting website <http://www.government-accounting.gov.uk>), This guidance will apply to NHS foundation trusts in full.

Balance sheet

Tangible fixed assets

Valuation and valuation basis

- 3.73 NHS foundation trusts must adopt a policy of revaluation within the scope of FRS 15. Land and buildings have to be fully revalued every five years with an interim valuation every three years. The interim valuations should be undertaken by external professional valuers unless the NHS foundation trust can provide evidence that there is reliable information available to allow the valuation to be undertaken in house by a qualified valuer. The five yearly valuations must be carried out by an external professional valuer, who must meet the requirements of FRS 15.

Capitalisation threshold of fixed assets - de minimis limits

- 3.74 *FRoM* leaves discretion for individual Government departments to set their own capitalisation thresholds, having regard to practicality, flexibility, consistency and asset grouping considerations. The Department of Health has adopted a £5,000 capitalisation threshold for individual assets, although assets of lesser value should be capitalised if they form part of a group, with a group value in excess of £5,000, as defined below. This threshold applies to NHS foundation trusts, as consistency with other NHS bodies is required. The £5,000 figure includes VAT where this is not recoverable.

Grouped assets

- 3.75 "Grouped assets" are a collection of assets which individually may be valued at less than £5,000 but which together form a single collective asset because the items fulfil all the following criteria:

the items are functionally interdependent;

the items are acquired at about the same date and are planned for disposal at about the same date;

the items are under single managerial control; and

each individual asset thus grouped has a value of over £250.

- 3.76 Assets acquired in the course of the initial setting up of a new building or on refurbishment are also to be treated as "grouped" for capitalisation purposes.

Capitalisation of software and software licenses

- 3.77 Software code owned by a NHS foundation trust such that it could copy, licence or sell the application at its discretion should be carried as a tangible fixed asset, within the category "IT hardware" and depreciated over the expected economic life of the software. However, a purchase of software is generally the purchase of a licence to use software code developed by, and which remains the property of, a third party.
- 3.78 The provisions of this manual on the capitalisation threshold and grouping of assets also apply to the capitalisation of expenditure on software as an intangible fixed asset under FRS 10. As with IT hardware, it is expected that software used on a network will meet the "interdependence" criterion for the grouping of fixed assets.

IT assets

- 3.79 It is expected that IT hardware will be considered interdependent if it is attached to a network, the fact that it may be capable of stand-alone use notwithstanding. The effect of this will be that all IT equipment purchases, where the final three criteria listed in paragraph 3.75 apply, will be capitalised.

Initial equipping and setting-up costs of new building

- 3.80 Assets which are capital in nature but which are individually valued at less than £5,000 but more than £250 may be capitalised (at the NHS foundation trust's discretion) as collective, or "grouped", assets where they are acquired as part of the setting-up of a new building. The decision on whether or not to capitalise such costs is a choice of accounting policy and consequently the NHS foundation trust should ensure consistency in adhering to this accounting policy if it decides that it is the most appropriate way of valuing its fixed assets. In this context, the enhancement or refurbishment of a ward or unit should be treated in the same way as "new build", provided that the work would be considered as "subsequent expenditure" in FRS 15 terms. It is therefore appropriate to capitalise the purchase of new furniture in a new build or refurbishment exercise, provided that assets thus capitalised can be subsequently identified for audit purposes.

Impairment of fixed assets

- 3.81 Much of the detail of FRS 11 is concerned with the identification of "income-generating units" (as defined by FRS 11) and the measurement of value in use (the present value of cash flows from the use of an asset). For NHS foundation trusts, these sections of FRS 11 will apply where the NHS foundation trust can identify income generating units in accordance with FRS 11.
- 3.82 FRS 11 defines value in use as the present value of the future cash flows from the asset's continued use. However, it adds that, where a fixed asset is not held for the purpose of generating cash flows, an alternative measure of its service potential may be more relevant. HM Treasury have interpreted this for the public sector, stating that, where assets are not held for the purpose of generating cash flows, value in use will be assumed to be at least equal to the cost of replacing the service potential provided by the asset unless there has been a reduction in service potential.
- 3.83 NHS foundation trusts are required to charge any impairment identified on bringing an asset into use direct to the I&E account. Therefore, it is not expected that an NHS foundation trust would have a negative revaluation reserve. The exception to this is if, on establishment, an NHS foundation trust has a negative opening revaluation reserve as these balances are carried forward in the same way as any other opening balances.
- 3.84 As land and buildings are reported separately in the notes to the balance sheet, impairments and revaluations need to be analysed between land and buildings, based on the valuer's analysis of the overall valuation of the property, and upward revaluations or impairments need to be recognised separately on land and on buildings.

Depreciation and asset lives

- 3.85 Depreciation policies other than straight-line depreciation are not permissible. NHS foundation trusts should depreciate all assets other than land.

Stocks and work in progress

- 3.86 Under SSAP 9, partially completed spells of patient care performed under Payment by Results contracts with NHS commissioners or under other forms of contract should be recognised as work in progress. In this case, they would be held on the balance sheet of the NHS foundation trust as an asset, at the lower of cost and net realisable value.
- 3.87 NHS foundation trusts should contact its auditors to discuss the most appropriate accounting policies to be used in recognising and valuing these assets. In applying this policy, NHS foundation trusts should consider whether the value of their work in progress arising from partially completed spells of patient care would be material to their accounts, and also whether year on year changes in any such balance would be material to their accounts.
- 3.88 NHS foundation trusts who recognise work in progress in respect of partially completed spells of patient care for the first time should be aware that this will represent a change in accounting policy and will require an adjustment to the prior period's financial statements under FRS 3.

Debtors

Prepayments: deferred assets in PFI schemes

- 3.89 Where land and buildings are "transferred" to the private sector partner in a PFI scheme for subsequent sale, this will usually be in exchange for a reduction in rental payments. Equipment, cash or other assets may similarly be injected in exchange for a reduction in payments where the land becomes available later in the contract period. Such contributions of assets typically create "deferred assets" (prepayments) in the accounts of the NHS foundation trust. These deferred assets should be accounted for in accordance with Treasury Task Force Technical Note 1 (revised).

Provision for irrecoverable debts

- 3.90 Guidance from the Compensation Recovery Unit suggests that a provision for irrecoverable debts of 8.7% of accrued Road Traffic Accident (RTA) income should be included if material. NHS foundation trusts should review this in the light of local information.
- 3.91 Contracts for patient care entered into by NHS foundation trusts are legally binding and may be resolved by litigation. It is therefore possible for NHS foundation trusts to provide for irrecoverable debts where they have evidence that an invoice will not be paid in full.

Completion of FTC forms: tax and social security balances

- 3.92 All debtor and creditor balances relating to tax and social security should be included in the FTC forms under the relevant heading on FTC 20F ("NHS debtors and creditors reconciliation: other WGA bodies").

Creditors

- 3.93 Overdrafts should be shown as part of creditors under the heading "committed facilities".

Provisions

Clinical negligence claims

- 3.94 For NHS foundation trusts within the NHSLA clinical negligence scheme, all clinical negligence claims are recognised in the accounts of the NHSLA. Consequently, the NHS foundation trust will have no provision for clinical negligence claims. The NHSLA will provide a schedule showing the claims recognised in the books of the NHSLA on behalf of the NHS foundation trust. This must be disclosed at the foot of the main provisions table.

Early retirement costs

- 3.95 NHS employers are responsible for meeting additional costs arising from early retirement. As soon as the decision is made that a staff member is to retire early a provision or creditor should be established depending on how the NHS foundation trust chooses to finance its liability with the NHS Pensions Agency.

Injury benefits

- 3.96 NHS employers are responsible for meeting the cost of injury benefits awards in respect of claims made by NHS employees. The entitlement to injury benefits and the amount of the awards are decided by the NHS Pensions Agency. The agency will notify the claimants' employer of the award made. Shortly after payments are made, the NHS Pensions Agency will invoice the employer for the rechargeable amount. The details provided on the award notification and the subsequent invoice should be used for calculating injury benefit provisions as per FRS 12, including discounting if material.

Public dividend capital

3.97 The closing balance of public dividend capital will be confirmed by the Department of Health.

Donated asset reserve

3.98 Donated assets are brought to account in the same way as purchased assets, at cost if newly purchased or constructed, then revalued to a current cost valuation. They are valued, depreciated and subject to impairment in the same way as other assets. The donated asset reserve is used however in such a way as to remove donated assets from the calculation of PDC dividend charges while a release from the reserve neutralises the revenue impact of the depreciation charge.

3.99 Where a donor has contributed to part of an asset, only that proportion falls to be treated as a donated asset. It is possible therefore for an individual asset to be partly donated and partly purchased, with separate accounting entries associated with each.

3.100 For an asset to be treated as donated, there should be no consideration given in return (thus the donor, or individuals or organisations nominated by the donor, may not be offered preferential treatment or other advantages or benefits).

3.101 The following examples do not qualify as “donated”:

- an asset transferred between public bodies as a result of a transfer of functions (unless the asset was legitimately a donated asset in the transferor’s books);
- assets financed by Government grants;
- subsequent capitalised expenditure on a donated asset; and
- the provision by a developer of an access road or transport scheme that will benefit the developer’s business. Any asset provided as part of a PFI scheme by the developer cannot be considered as donated.

3.102 Any restrictions imposed by the donor on the use of an asset must be disclosed in the accounts.

3.103 The donated asset reserve is maintained to:

- represent the financing associated with the receipt of a donated asset (i.e. provides the credit side to the transaction debiting fixed assets); and
- to provide a mechanism for neutralising depreciation, impairments or profit/loss on disposal charged to the I&E account in respect of donated assets (a transfer from the donated asset reserve is made to the I&E account to match the I&E account charge).

3.104 The donated asset reserve is used to account for the following transactions involving donated assets:

- on revaluation of donated assets, the debit or credit is taken to the donated asset reserve, not the revaluation reserve;
- on impairment of a donated asset, any debit that would otherwise be charged to the revaluation reserve under FRS 11 is taken to the donated asset reserve;
- where an impairment is due to loss of economic benefit, the debit is taken to the I&E account, as it would be for a purchased asset. However, an equal sum is debited to the donated asset reserve and credited to the I&E account to neutralise this; and
- depreciation is charged to the I&E account in exactly the same way as would the depreciation on a purchased asset. A transfer is made from the donated asset reserve to the I&E account to match the depreciation charged. No release is made in respect of revalued amounts to the I&E reserve (as for purchased revalued assets) as the full credit is required in the current year I&E account to neutralise the charge.

- 3.105 The carrying amounts of donated assets continue at all times to equal the value of the donated asset reserve.
- 3.106 On disposal of a donated asset, the profit or loss on disposal is calculated in the normal way, as the difference between the carrying amount and net sale proceeds, and credited or charged to the I&E account. A transfer from the donated asset reserve to the I&E account is made to match the profit/loss. The net result of this transaction is to re-state the donated asset reserve such that it is equal to the value of the sale proceeds. Finally, a transfer clears any remaining donated asset reserve balance to the I&E reserve.
- 3.107 Transfers from the donated asset reserve to the income and expenditure account should be accounted for within other operating income or other operating expenditure as appropriate, and should be disclosed separately in the notes analysing these lines of the income and expenditure account.

Notes to the balance sheet

Tangible fixed assets: protected and non-protected assets

- 3.108 The split of net book value for land, buildings and dwellings should also be analysed between protected and non-protected assets. Guidance on this classification is available on Monitor's website (www.monitor-nhsft.gov.uk) ("*Protection of Assets: Guidance for NHSFTs*", published October 2004).

PFI

- 3.109 NHS foundation trusts' involvement in PFI schemes should be accounted for in accordance with Treasury Task Force Technical Note 1 which provides definitive guidance for the application of FRS 5.
- 3.110 Renegotiation of off balance-sheet PFI contracts may involve a reduction in overall costs in recognition of lower finance costs available in the current economic conditions. In general, such cost savings should be allocated to the period over which the contract runs. This is consistent with the practice of allocating all the other contractors' costs to the life of the arrangement – there is little justification for treating a cost reduction as lump-sum in-year income. Early discussion with auditors is recommended in view of the material sums often involved.

Prudential Borrowing Limit

- 3.111 NHS foundation trusts are required to comply with the *Prudential Borrowing Code* (available on Monitor's website, www.monitor-nhsft.gov.uk). The prudential borrowing limit set out in that code is made up of two elements:
- the maximum cumulative amount of long-term borrowing; and
 - the amount of any approved working capital facility.
- 3.112 NHS foundation trusts should include a note to the accounts disclosing their performance against both elements of their prudential borrowing limit (PBL) at the balance sheet date. NHS foundation trusts should also disclose their actual performance during the year against the key ratios upon which the PBL is based and explain any significant variances that may be highlighted by this disclosure. The following is an example of these disclosures:

The Trust has a prudential borrowing limit of £x in 200x/x (£x in 200x/x). The Trust has actually borrowed £x in 200x/x (£x in 200x/x).

Financial ratio	Actual ratios 20xx/xx	Approved PBL ratios 20xx/xx
Maximum debt/capital ratio		
Minimum dividend cover		
Minimum interest cover		
Minimum debt service cover		
Minimum debt service to revenue		

The Trust has £x of approved working capital facility (£x in 200x/x). The Trust had drawn down £x of its working capital facility at 31 March 200x (£x at 31 March 200x).

3.113 The NHS foundation trust should add the following narrative explaining what this note refers to:

“The NHS foundation trust is required to comply and remain within a prudential borrowing limit. This is made up of two elements:

- the maximum cumulative amount of long-term borrowing. This is set by reference to the five ratio tests set out in Monitor’s Prudential Borrowing Code . The financial risk rating set under Monitor’s Compliance Framework determines one of the ratios and therefore can impact on the L.T. borrowing limit.
- the amount of any working capital facility approved by Monitor.

Further information on the NHS foundation trusts Prudential Borrowing Code and Compliance Framework can be found on the website of Monitor, the Independent Regulator of Foundation Trusts.”

Financial instruments

3.114 FReM requires public sector bodies to comply with FRS 13 and notes to the accounts should be produced to comply with this requirement.

3.115 The fair value of loans should be calculated based on the discounted value of the future cash flows expected to be received from the loan.

3.116 NHS foundation trusts should exclude from all disclosures all of their short-term debtors and creditors as defined in FRS13.

Third party assets

3.117 FReM requires that third party assets are separately disclosed but are not recognised in the accounts of the NHS foundation trust. These are assets held by the NHS foundation trust on behalf of a third party such as money held on behalf of patients or bank balances held on behalf of other organisations with which the NHS foundation trust operates agency arrangements.

Statement of total recognised gains and losses

Statement of total recognised gains and losses: completion of FTC forms

3.118 Impairment losses other than those chargeable to the income and expenditure account should be included in this note to the accounts.

Notes related to the statement of total recognised gains and losses

3.119 Transfer of realised profits (losses) to the income and expenditure reserve shows:

donated assets: transfers from the donated assets reserve, equal to the sale proceeds, to the income and expenditure reserve on the disposal of donated assets.

Movements in taxpayers' equity

3.120 This note highlights the taxpayers' stake in the NHS foundation trust and identifies any changes in the year. A suggested format for the note would follow the analysis required in the FTC forms.

Cash flow statement

3.121 The financing section of the cash flow statement must include the headings required in the FTC forms as well as any relevant lines prescribed by FRS 1.

Appendix A to chapter 3: Example accounting policies

This appendix provides a model accounting policies note that NHS foundation trusts may wish to use as the basis for their own disclosure of accounting policies. As these are only examples they should be adapted to fit the circumstances of each organisation – i.e. an organisation should include any additional accounting policies adopted locally and exclude policies which are not relevant to that organisation.

The appendix also contains a checklist of some areas that, if present, would require the NHS foundation trust to consult UK GAAP for appropriate accounting policies. This list is not exhaustive but is aimed at identifying common areas where additional disclosures of accounting policies may be required.

Model accounting policies note (applicable to the accounts of an individual NHS foundation trust)

Accounting policies and other information

Monitor has directed that the financial statements of NHS foundation trusts shall meet the accounting requirements of the *NHS Foundation Trust Financial Reporting Manual* which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the *20XX/XX NHS Foundation Trust Financial Reporting Manual* issued by Monitor. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's *Financial Reporting Manual* to the extent that they are meaningful and appropriate to NHS foundation trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of tangible fixed assets at their value to the business by reference to their current costs. NHS foundation trusts, in compliance with HM Treasury's *Financial Reporting Manual*, are not required to comply with the FRS 3 requirements to report "earnings per share" or historical profits and losses.

Acquisitions and discontinued operations

Activities are considered to be 'discontinued' where they meet all of the following conditions:

- a. the sale (this may be at nil consideration for activities transferred to another public sector body) or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- b. if a termination, the former activities have ceased permanently;
- c. the sale or termination has a material effect on the nature and focus of the reporting NHS foundation trust's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular activity or from a material reduction in income in the NHS foundation trust's continuing operations; and
- d. the assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Activities are considered to be 'acquired' whether or not they are acquired from outside the public sector.

Income recognition

Income is accounted for applying the accruals convention. The main source of income for the trust is under contracts from commissioners in respect of healthcare services. Income is recognised in the period in which services are provided. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

The NHS foundation trust changed the form of its contracts with NHS commissioners to follow the Department of Health's Payment by Results methodology in 200x/xx. To manage the financial impact of this change on the NHS foundation trust and its commissioners, [set out details of timing and nature of transitional gain or clawback arrangements].

Expenditure

Expenditure is accounted for applying the accruals convention. [Add details of any other significant accounting policies or estimation techniques applied to expenditure and not disclosed elsewhere.]

Tangible fixed assets

Capitalisation

Tangible assets are capitalised if they are capable of being used for a period which exceeds one year and they:

individually have a cost of at least £5,000; or

form a group of assets which individually have a cost of more than £250, collectively have a cost of at least £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or

form part of the initial setting-up cost of a new building or refurbishment of a ward or unit, irrespective of their individual or collective cost.

Valuation

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs, such as installation, directly attributable to bringing them into working condition. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. The costs arising from financing the construction of the fixed asset are not capitalised but are charged to the income and expenditure account in the year to which they relate.

All land and buildings are revalued using professional valuations in accordance with FRS 15 every five years. A three yearly interim valuation is also carried out.

Valuations are carried out by professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) *Appraisal and Valuation Manual*. The last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005.

The revaluation undertaken at that date was accounted for on 31 March 2005.

The valuations are carried out primarily on the basis of depreciated replacement cost for specialised operational property and existing use value for non-specialised operational property. The value of land for existing use purposes is assessed at existing use value. For non-operational properties including surplus land, the valuations are carried out at open market value.

Additional alternative open market value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

Assets in the course of construction are valued at cost and are valued by professional valuers as part of the five or three-yearly valuation or when they are brought into use.

Residual interests in off-balance sheet private finance Initiative properties are included in assets under construction within tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual with an adjustment. The adjustment is the net present value of the change in the fair value of the residual as estimated at the start of the contract and at the balance sheet date.

Operational equipment is valued at net current replacement cost. Equipment surplus to requirements is valued at net recoverable amount.

Depreciation, amortisation and impairments

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. No depreciation is provided on freehold land, and assets surplus to requirements.

Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the trust, respectively.

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as assessed by the NHS foundation trust's professional valuers. Leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost evenly over the estimated life. [Details of useful economic lives should be provided, for instance the range within which useful economic lives fall for the main classes of asset.]

Fixed asset impairments resulting from losses of economic benefits are charged to the income and expenditure account. All other impairments are taken to the revaluation reserve and reported in the statement of total recognised gains and losses to the extent that there is a balance on the revaluation reserve in respect of the particular asset.

Intangible fixed assets

Intangible assets are capitalised when they are capable of being used in a trust's activities for more than one year; they can be valued; and they have a cost of at least £5,000.

Intangible fixed assets held for operational use are valued at historical cost and are amortised over the estimated life of the asset on a straight line basis. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred and amortised over the shorter of the term of the licence and their useful economic lives.

Donated fixed assets

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the donated asset reserve. Donated fixed assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluations are also taken to the donated asset reserve and, each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the income and expenditure account. Similarly, any impairment on donated assets charged to the income and expenditure account is matched by a transfer from the donated asset reserve. On sale of donated assets, the value of the sale proceeds is transferred from the donated asset reserve to the Income and Expenditure Reserve.

Investments

Investments in subsidiary undertakings, associates and joint ventures are treated as fixed asset investments and valued at cost less any amounts written off to represent any impairments in value. Fixed asset investments are reviewed annually for impairments.

Deposits and other investments that are readily convertible into known amounts of cash at or close to their carrying amounts are treated as liquid resources in the cashflow statement. These assets, and other current assets, are valued at cost less any amounts written off to represent any impairments in value, and are reviewed annually for impairments.

Government grants

Government grants are grants from Government bodies other than income from primary care trusts or NHS trusts for the provision of services. Grants from the Department of Health, including those for achieving three star status, are accounted for as Government grants. Where the Government grant is used to fund revenue expenditure it is taken to the Income and Expenditure account to match that expenditure. Where the grant is used to fund capital expenditure the grant is held as a creditor and released to the income and expenditure account over the life of the asset on a basis consistent with the depreciation charge for that asset.

Private Finance Initiative (PFI) transactions

The NHS follows HM Treasury's Technical Note 1 (Revised) "How to Account for PFI transactions" which provides definitive guidance for the application of application note F to FRS 5.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where the trust has contributed land and buildings, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the income and expenditure account. Where, at the end of the PFI contract, a property reverts to the trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset.

Where the balance of risks and rewards of ownership of the PFI property are borne by the trust, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. Work-in-progress comprises goods and services in intermediate stages of production, and includes partially-completed spells of patient care. Partially-completed spells of patient care have been valued [state basis of valuation of cost and net realisable value].

Cash, bank and overdrafts

Cash, bank and overdraft balances are recorded at the current values of these balances in the NHS foundation trust's cash book. Account balances are only set off where a formal agreement has been made with the bank to do so. In all other cases overdrafts are disclosed within creditors. Interest earned on bank accounts and interest charged on overdrafts are recorded as, respectively, "interest receivable" and "interest payable" in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate.

Research and development

Expenditure on research is not capitalised. Expenditure on development is capitalised if it meets the following criteria:

- there is a clearly defined project;
- the related expenditure is separately identifiable;
- the outcome of the project has been assessed with reasonable certainty as to its technical feasibility and its resulting in a product or services that will eventually be brought into use; and
- adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Where possible, NHS foundation trusts disclose the total amount of research and development expenditure charged in the Income and Expenditure account separately. However, where research and development activity cannot be separated from patient care activity it cannot be identified and is therefore not separately disclosed.

Fixed assets acquired for use in research and development are amortised over the life of the associated project.

Provisions

The NHS foundation trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.2% in real terms.

Contingencies

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note XYZ where an inflow of economic benefits is probable.

Contingent liabilities are provided for where a transfer of economic benefits is probable. Otherwise, they are not recognised, but are disclosed in note XYZ unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

Possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or

Present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS foundation trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the NHS foundation trust is disclosed at note XYZ.

Non-clinical risk pooling

The NHS foundation trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the trust pays an annual contribution to the NHS Litigation Authority and in return receives assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses when the liability arises.

Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the NHS foundation trust to identify its share of the underlying scheme liabilities.

The scheme is subject to a full valuation every four years by the Government Actuary. The last published valuation relates to the period 1 April 1994 to 31 March 1999. The valuation as at 31 March 2003 has not yet been published. Between valuations, the Government Actuary provides an update of the scheme liabilities. The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual *NHS Pension Scheme (England and Wales) Resource Account*, published annually. These accounts can be viewed on the NHS pensions Agency website at www.nhs.gov.uk. Copies can also be obtained from The Stationery Office.

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis.

Employers pension cost contributions are charged to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following the scheme valuation, on advice from the actuary. At the last valuation on which contribution rates were rebased (31 March 1999) employer contribution rates from 2003-04 were set at 14% of pensionable pay. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

[Note: the most recent valuation of the pension scheme may be available by the time that the 2005/06 accounts are prepared. If so, Monitor will issue details to allow these disclosures to be updated.]

The scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year pensionable pay for death in service, and up to five times their annual pension for death after retirement, is payable.

The scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement employees can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time the trust commits itself to the retirement, regardless of the method of payment.

[Add similar details of any other pension scheme used.]

Value Added Tax

Most of the activities of the NHS foundation trust are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. Resulting exchange gains and losses are taken to the income and expenditure account.

Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the NHS foundation trust has no beneficial interest in them. However, they are disclosed in a separate note to the accounts in accordance with the requirements of the HM Treasury *Financial Reporting Manual*.

Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS foundation trust, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the income and expenditure account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the income and expenditure account on a straight-line basis over the term of the lease.

Public dividend capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities i.e. the net assets of a public benefit corporation.

A charge, reflecting the forecast cost of capital utilised by the NHS foundation trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for donated assets and cash held with the Office of the Paymaster General. Average relevant net assets are calculated as a simple mean of opening and closing relevant net assets.

Financial instruments

The Trust may hold any of the following financial assets and liabilities:

- assets: investments, long-term debtors and accrued income, short-term debtors and accrued income (not disclosed in note XYZ under exemptions permitted by FRS 13), [any others]; and
- liabilities: loans and overdrafts, long-term creditors, long-term provisions arising from contractual arrangements, short-term creditors (not disclosed in note XYZ under exemptions permitted by FRS 13), short-term provisions arising from contractual arrangements (not disclosed in note XYZ under exemptions permitted by FRS 13), [any others].

The NHS foundation trust can borrow within the limits set by Monitor's *Prudential Borrowing Code*. The NHS foundation trust's position against its prudential borrowing limit is disclosed in note XYZ. The NHS foundation trust has currently borrowed in order to [state reasons for current borrowing position and circumstances under which borrowing will continue to be held.] In order to repay these debts as they fall due, the NHS foundation trust will need to... [give details of plans to manage the repayments and any significant risks arising].

The NHS foundation trust has inherited finance leases. It will only acquire assets under finance leases in future where this represents the most effective use of the NHS foundation trust's resources.

All other financial instruments are held for the sole purpose of managing the cash flow of the trust on a day to day basis or arise from the operating activities of the trust. The management of risks around these financial instruments therefore relates primarily to the trust's overall arrangements for managing risks to their financial position.

Situations requiring reference to UK GAAP

- Does the NHS foundation trust hold investments in subsidiaries?
- Has the NHS foundation trust acquired an interest in a subsidiary, joint venture or associate?
- Does the NHS foundation trust carry out two or more classes of business that are substantially different?
- Has the NHS foundation trust disposed of any material business segments in the period?
- Has the NHS foundation trust classified any operations as discontinued during the period?
- Is the NHS foundation trust a lessor of assets?
- Has the NHS foundation trust sold any assets and leased them back from the purchaser?
- Has the NHS foundation trust undertaken any foreign currency transactions?
- Does the NHS foundation trust employ members of a pension scheme other than the NHS Pension Scheme?
- Has the NHS foundation trust entered into any transactions involving consignment stock, sale and repurchase agreements, debt factoring, securitisation, loan transfers or quasi-subidiaries?
- Does the NHS foundation trust have any long-term contracts?
- Does the NHS foundation trust have any corporation tax liabilities, or any deferred tax?
- Does the NHS foundation trust hold any investment properties?
- Has the NHS foundation trust revised the useful economic lives of any of its assets during the period?
- Have any exceptional items arisen during the accounting period?
- Have there been any changes in accounting policy since the prior year?
- Have any fundamental errors been detected in the accounts of an earlier period that require correction?
- Does the NHS foundation trust hold "other reserves"?
- Have there been any circumstances arising which would cause an asset to be impaired?

Appendix B to chapter 3: FTC forms

4. Chapter 4: Annual reporting guidance for NHS foundation trusts

Introduction

- 4.1 Schedule 1, paragraph 26 of the Health and Social Care (Community Health and Standards) Act 2003 (the 2003 Act) requires NHS foundation trusts to prepare an annual report. Paragraph 26(3) of Schedule 1 provides that it is for Monitor to decide the form of reports, when the reports are to be submitted in and the periods for which the reports are to relate.
- 4.2 This chapter sets out the requirements for the content and format of the annual report element of the Annual Report and Accounts of NHS foundation trusts.

Title page

- 4.3 The following wording must be included on the title page of the Annual Report and Accounts. This is usually the first right hand page of text after the front cover:

“XXX NHS Foundation Trust

Annual Report and Accounts

Presented to Parliament pursuant to Schedule 1, paragraph 25(4) of the Health and Social Care (Community Health and Standards) Act 2003”.

Format of the annual report

- 4.4 This guidance draws on the HM Treasury’s *Financial Reporting Manual*, which interprets the requirements of the Companies Act and the Accounting Standards Board’s “Reporting Standard 1: Operating and Financial Review” in the context of the public sector. As *FReM* applies to a wide number of bodies some of its requirements are not applicable to NHS foundation trusts – this chapter therefore includes the requirements of *FReM* as relevant to NHS foundation trusts.
- 4.5 The annual report of NHS foundation trusts should include the following sections:
- chair’s statement;
 - chief executive’s statement;
 - background information;
 - operating and financial review;
 - board of governors;
 - board of directors;
 - membership;
 - public interest disclosures; and
 - remuneration report.

4.6 The content of each of these sections is considered below.

Chair's statement

4.7 The chair's statement provides a high level overview of the performance of the NHS foundation trust from the non-executive perspective. The statement should highlight:

the performance of the NHS foundation trust in meeting its key financial and operational targets for the year under review;

the strategic direction of the NHS foundation trust and the governors' contribution to the development of key elements of the strategy; and

the outlook for the NHS foundation trust, including any external factors that may influence performance and steps taken by the NHS foundation trust to mitigate key risks.

Chief executive's statement

4.8 The chief executive of an NHS foundation trust is designated by the 2003 Act as the accounting officer and is therefore responsible for making a statement in respect of the performance of the NHS foundation trust on behalf of the board of directors.

Background information

4.9 This is information which should be included in the Annual Report to reflect the requirements of the Companies Act. A list of suggested background information is included in Appendix A to this chapter. NHS foundation trusts should ensure that the information is only included where it is important to its operations.

Operating and financial review: Reporting Standard 1

4.10 The Accounting Standards Board's "Reporting Standard 1: Operating and Financial Review" applies to NHS foundation trusts.

4.11 The objective of RS1 is to specify the requirements for an operating and financial review, which shall be a balanced and comprehensive analysis of:

- 1 the development and performance of the business of the entity during the financial year;
- 2 the position of the entity at the end of the year;
- 3 the main trends and factors underlying the development, performance and position of the business of the entity during the financial year; and
- 4 the main trends and factors that are likely to affect the entity's future development, performance and position.

Key principles underlying the operating and financial review

4.12 The key principles that should underlie the operating and financial review (OFR) are set out in paragraphs 5 to 26 of the RS1. In summary, these are:

- the OFR shall set out an analysis of the business through the eyes of the board of directors;
- the OFR shall focus on matters that are relevant to the interests of users of the Annual Report and Accounts;
- the OFR shall have a forward-looking orientation, identifying those trends and factors relevant to an assessment of current and future performance of the NHS foundation trust and the progress towards the achievement of long-term business objectives;

- the OFR shall complement as well as supplement the financial statements, in order to enhance the overall corporate disclosure;
- the OFR shall be comprehensive and understandable;
- the OFR shall be balanced and neutral, dealing even-handedly with both good and bad aspects; and
- the OFR shall be comparable over time.

OFR: operational reporting

4.13 The following operational information should be contained in the OFR:

- a brief history of the NHS foundation trust, its principal activities across all sites and the organisational structure established to deliver these activities. This should include a statement on the legislative basis for NHS foundation trusts;
- the key aims and objectives of the NHS foundation trust, its strategy for achieving these objectives and the principal financial and non-financial measures that the NHS foundation trust uses to assess whether it has achieved its objectives;
- a review of the financial and non-financial performance of the NHS foundation trust during the period including;
- the organisation's strengths and resources, including those not recognised in the balance sheet, such as strong relationships with key stakeholders; research and development activities; teaching; intellectual capital and licences;
- the development and performance of the business of the NHS foundation trust during the financial year;
- the position of the NHS foundation trust at the end of the year;
- the main trends and factors underlying the development, performance and position of the business of the NHS foundation trust during the financial year;
- the main trends and factors which are likely to affect the NHS foundation trust's future development, performance and position;
- relevant risks and the directors' approach to managing these risks;
- key constraints on the NHS foundation trust's activities;
- relationships with local commissioners and key stakeholders;
- details of predictive comments made in previous OFRs where these have not been borne out by events;
- developments on organisation-wide quality issues such as management, communications and training programmes, patient satisfaction, quality standards and the role of the NHS foundation trust as a local employer and regenerator, especially in disadvantaged areas;
- information about the NHS foundation trust's policies relating to environmental matters (including the impact of the business of the NHS foundation trust on the environment), and to social and community issues, and information on the extent to which these policies have been successfully implemented. Further information on the kinds of information to be provided in the OFR in respect of environmental and social and community issues can be found in the Practical Examples and Proformas section of the FReM website (www.financial-reporting.gov.uk); and
- information on key operational performance indicators.

OFR: patient care

- Descriptions of how the NHS foundation trust is using its foundation trust status to develop its services and improve patient care.
- Performance against key patient targets.
- Arrangements for monitoring improvements in the quality of healthcare and progress towards meeting any national and local targets, incorporating Healthcare Commission assessments and reviews and the NHS foundation trust's response to any recommendations made.
- Progress towards targets as agreed with local commissioners, together with details of other key quality improvements.
- Any new or significantly revised services.
- Service improvements following staff or patient surveys or comments and Healthcare Commission reports.
- Improvements in patient/carer information.
- Information on complaints handling.

OFR: Stakeholder relations

- Descriptions of significant partnerships and alliances entered into by the NHS foundation trust to facilitate the delivery of improved healthcare. These should be described together with the benefits to patients and the methods used to fund these activities.
- Development of services involving other local services/agencies and involvement in local initiatives.

OFR: Finance

- An analysis of the financial position of the NHS foundation trust, including its level of borrowing against the prudential borrowing limit set by Monitor, the key financial risks facing the NHS foundation trust, and the impact of any material post-balance sheet events.
- A summary of the NHS foundation trust's planned investment activity, including its capital programme and prudential borrowing limits, as well as its refurbishment and maintenance programmes. A distinction should be made between investment in protected and non-protected activities and information should be provided on the benefits expected from investment in the physical assets of the NHS foundation trust.
- A brief description of non-healthcare activities undertaken and the income generated for the provision of NHS health care.
- Details of any significant differences between the carrying amount and market value of interests in land.
- Details of any significant accounting policies, particularly those requiring the exercise of judgement and to which results are particularly sensitive, as well as those policies that may have changed during the year.
- Details of any investments made through joint ventures or subsidiary companies and any other financial investments made, or financial assistance given, by the NHS foundation trust.
- Information about private patient income and compliance with the private patient cap.
- Details of activities designed to improve value for money.
- Information on the policy for the application of charitable funds, details of significant donations and the benefits that have accrued from the funds. A distinction should be made between charitable funds where the NHS foundation trust is a corporate trustee and those where there are separate appointed trustees.
- Information on any other key financial performance indicators.

OFR: Going concern

- 4.14 There is no presumption of going concern status for NHS foundation trusts. Directors must decide each year whether or not it is appropriate for the NHS foundation trust to prepare its accounts on the going concern basis, taking into account best estimates of future activity and cash flows.
- 4.15 The NHS foundation trust should include a statement on whether or not the financial statements have been prepared on a going concern basis and the reasons for this decision.
- 4.16 A typical disclosure, based on guidance from the Accounting Standards Board, would read:
- “After making enquiries, the directors have a reasonable expectation that the NHS foundation trust has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.”*
- 4.17 Where there is fundamental uncertainty over the going concern basis (for instance, continuing operational stability depends on finance or income that has not yet been approved), or where the going concern basis is not appropriate, the directors will need to disclose the relevant circumstances and should discuss the basis of accounting and the disclosures to be made with their auditors.

Board of governors

- 4.18 The annual report should describe the composition of the board of governors during the reporting period and the name of any persons occupying positions as governors. It should also describe how the governors were appointed or elected, and how long their appointments are for. This should include a brief description of the constituency or organisation that each governor represents and information about any elections held during the year. The report should disclose details of company directorships or other material interests in companies held by governors where those companies or related parties are likely to do business, or are possibly seeking to do business, with the NHS foundation trust. Each NHS foundation trust must have a register of governors' interests that must be available to the public and the annual report should provide information on how to access the register of interests.

Board of directors

- 4.19 The annual report is primarily a report of the board of directors and this section of the report should provide information on the composition of the board during the reporting year. Specifically, information should be provided on:
- the name(s) of the person(s) occupying the position of chair during the year and how long the appointment is for;
 - the name(s) of the person(s) occupying the position of chief executive and the composition of the board of directors during the year;
 - a brief description of the length of appointments of the non-executive directors, and how they may be terminated; and
 - a brief description of the background of each of the board members, including the date of appointment to the board.
- 4.20 The report should disclose details of company directorships or other material interests in companies held by directors which may conflict with their management responsibilities. Each NHS foundation trust must have a register of directors' interests that must be available to the public and the annual report should provide information on how to access the register of interests.

Membership

4.21 This section of the annual report should include:

- a brief description of the eligibility requirements for joining different membership constituencies, including the boundaries for public membership;
- information on the number of members and the number of members in each constituency; and
- a summary of the membership strategy and an assessment of the membership and a description of any steps taken during the year to ensure a representative membership, including progress towards any recruitment targets for members.

Public interest disclosures

4.22 NHS foundation trusts are public benefit corporations and the annual report must include public interest disclosures on the NHS foundation trust's activities and policies in the following areas:

- Actions taken by the NHS foundation trust to maintain or develop the provision of information to, and consultation with, employees;
- the NHS foundation trust's policies in relation to disabled employees and equal opportunities;
- information on health and safety performance and occupational health;
- a statement describing the better payment practice code or, or any other policy adopted on payment of suppliers, and performance achieved together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998;
- details of any consultations completed in the previous year, consultations in progress at the date of the report, or consultations planned for the coming year;
- consultation with local groups and organisations, including the overview and scrutiny committees of local authorities covering the membership areas; and
- any other public and patient involvement activities.

4.23 It would be considered best practice if NHS foundation trusts were also to disclose:

- Performance against the better payment practice code requirement to pay all trade creditors within 30 days;
- Management costs calculated in accordance with the Department of Health's definitions (<http://www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/FinanceAndPlanning/NHSM/anagementCosts/fs/en>); and
- Detailed disclosures in relation to "other income" where "other income" in the notes to the accounts is significant.

Remuneration report

4.24 The *FReM* requires NHS foundation trusts to comply with Section 234B and Schedule 7A of the Companies Act and Directors Remuneration Report Regulation 2002 (SI 2002 No 1986), as interpreted for the context of NHS foundation trusts, in providing a remuneration report in their Annual Report and Accounts.

4.25 Compliance with the *NHS Foundation Trust Financial Reporting Manual* in relation to the disclosure of senior employees' remuneration and pension entitlements will ensure that some of

the requirements of the remuneration report are met. The relevant notes to the accounts should be referenced in the main body of the remuneration report. The disclosures on senior employees' remuneration and pension entitlements will therefore be subject to audit. Auditors will also read the other information in the remuneration report and consider whether it is consistent with the financial statements.

- 4.26 The remuneration report must be signed by the chief executive.
- 4.27 The remuneration report must disclose information on those persons in senior positions having authority or responsibility for directing or controlling the major activities of the NHS foundation trust. This means those who influence the decisions of the NHS foundation trust as a whole rather than the decisions of individual directorates or sections within the NHS foundation trust. Such persons will include advisory and non-executive board members. In the following paragraphs, such persons are described as "senior managers".
- 4.28 The remuneration report shall include information under the following headings to the extent that they are relevant. Where the information relates to named individuals, their prior consent to disclosure is required but, subject to this being obtained, there is a presumption that the information will be given in all circumstances. Where disclosures are not made because consent to disclosure has been withheld, the fact that certain disclosures have been omitted should be disclosed.
- Details of the membership of the remuneration committee.
 - Statement of the policy on the remuneration of senior managers for current and future financial years, for instance whether a particular source of guidance was used to determine senior managers' pay and conditions of employment.
 - Explanation of methods used to assess whether performance conditions were met and why those methods were chosen. If relevant, why and how the methods involved comparison with outside organisations.
 - Explanation of relative importance of the relevant proportions of remuneration which are, and which are not, subject to performance conditions.
 - Summary and explanation of policy on duration of contracts, and notice periods and termination payments.
 - Details of the service contract for each senior manager who has served during the year.
 - Date of the contract, the unexpired term, and details of the notice period.
 - Provision for compensation for early termination.
 - Other details sufficient to determine the entity's liability in the event of early termination.
 - Explanation of any significant awards made to past senior managers.
 - For each senior manager who served during the year show, in tabular form this information is included in the financial statements and the remuneration report can reference to the relevant notes.
 - Salary and allowances (in bands of £5,000).
 - If a payment for compensation for loss of office paid or receivable has been made under the terms of an approved Compensation Scheme, the fact that such a payment has been made (but no details of the amounts paid).
 - Estimated value of non-cash benefits (benefits in kind) (to the nearest £100).

- The total of the above items for both this and the previous year.
- Details of any element of the remuneration package which is not cash.
- The real increase during the reporting year in the pension and (if applicable) related lump sum at age 60 in bands of £2,500.
- The value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at age 60 in bands of £2,500.
- The value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000
- The real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000.
- Details of compensation payable to former senior managers.
- Details of amounts payable to third parties for services of a senior manager.

4.29 Salary and allowances covers both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; performance pay or bonuses payable, and overtime; allowances, recruitment and retention allowances and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties.

Statement of accounting officer's responsibilities

4.30 The NHS foundation trust's chief executive should explain his/her responsibility for preparing the financial statements. This should be positioned after the Annual Report and before the statement on internal control. A model statement of accounting officer's responsibilities is provided in appendix B to this document.

Statement on internal control

4.31 All entities covered by the requirements of this manual shall prepare a statement on internal control. A possible model statement on internal control is reproduced in appendix C to this document, but should be adapted to reflect the particular circumstance of the NHS foundation trust.

Appendix A to chapter 4: Suggested background information for inclusion in the annual report

- A brief history of the entity and the fact that the NHS foundation trust was founded under the Health and Social Care (Community Health and Standards) Act 2003.
- A statement that accounting policies for pensions and other retirement benefits are set out in note XYZ to the accounts and that details of senior employees' remuneration can be found in page x of the remuneration report.
- Details of company directorships and other significant interests held by board members which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained.
- The name of the NHS foundation trust's external auditor.
- External auditors' remuneration and fees paid to external auditors for non-audit work (including all work done outside of Monitor's *Audit Code for NHS foundation trusts*). Disclosure should be provided of the nature and extent of non-audit work sufficient to allow readers to make an informed judgement as to whether the potential for conflicts of interest has been satisfactorily addressed by the auditor and by those charged with governance at the NHS foundation trust.
- Narrative disclosures of the NHS foundation trust's policy for ensuring that the external auditor's independence has not been compromised where work outside the audit code has been purchased from the NHS foundation trust's external auditors.
- Additional narrative and quantitative disclosures, beyond the basic requirements of the *NHS Foundation Trusts Financial Reporting Manual*, will be required to explain the nature of any PFI schemes to users of the accounts. These are likely to include the contract start and end date, a description of the scheme, and any reliable estimate of the value of the asset available to the NHS foundation trust. These disclosures may be made in the accounts, in which case they will be subject to audit. Alternatively, these disclosures may be made in the annual report.
- Where any market values of fixed assets are known to be significantly different from the values at which those assets are held in the NHS foundation trust's financial statements, and the difference is, in the directors' opinion, of such significance that readers of the accounts should have their attention drawn to it, the difference in values should be stated with as much precision as is practical.
- Any political or charitable donations should be disclosed. However, it is doubtful whether any such donations would be lawful for an NHS foundation trust.
- Any significant events since the balance sheet date affecting the NHS foundation trust.
- An indication of likely future developments at the NHS foundation trust.
- An indication of any significant activities in the field of research and development.
- Policies applied during the financial year for giving full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.
- Policies applied during the financial year for continuing the employment of, and for arranging appropriate training for, employees who have become disabled persons during the period.
- Policies applied during the financial year for the training, career development and promotion of disabled employees.
- Actions taken in the financial year to provide employees systematically with information on matters of concern to them as employees.

- Actions taken in the financial year for consult employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests.
- Actions taken in the financial year to encourage the involvement of employees in the NHS foundation trust's performance.
- Actions taken in the financial year to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the NHS foundation trust.

Appendix B to chapter 4: Model statement of accounting officer’s responsibilities

Statement of the chief executive’s responsibilities as the accounting officer of xyz NHS Foundation Trust

The Health and Social Care (Community Health and Standards) Act 2003 states that the chief executive is the accounting officer of the NHS foundation trust. The relevant responsibilities of accounting officer, including their responsibility for the propriety and regularity of public finances for which they are answerable, and for the keeping of proper accounts, are set out in the accounting officers' Memorandum issued by the Independent Regulator of NHS Foundation Trusts (“Monitor”).

The accounting officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the NHS foundation trust and to enable him/her to ensure that the accounts comply with requirements outlined in the above mentioned Act. The Accounting officer is also responsible for safeguarding the assets of the NHS foundation trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in Monitor's *NHS Foundation Trust Accounting Officer Memorandum*.

Signed.....

Chief Executive

Date: xx June 2006

Appendix C to chapter 4: Model statement on internal control

[The wording which is not in *italic* script in this pro forma statement on internal control (SIC) should be replicated in every SIC, the words in *italic* script being amended as appropriate to the body in question. **Bold** script indicates a rubric which should be fulfilled in a way appropriate to the actual processes in place in the body to which the SIC relates.]

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the NHS foundation trust's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me. I am also responsible for ensuring that the NHS foundation trust is administered prudently and economically and that resources are applied efficiently and effectively. In addition, I am accountable to the board of governors of XYZ NHS Foundation Trust.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of XYZ NHS Foundation Trust, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in XYZ NHS Foundation Trust for the year ended 31 March [200X] and up to the date of approval of the annual report and accounts.

Capacity to handle risk

[Describe the key ways in which:

- leadership is given to the risk management process; and
- staff are trained or equipped to manage risk in a way appropriate to their authority and duties. Include comment on guidance provided to them and ways in which you seek to learn from good practice.]

The risk and control framework

[Describe the key elements of the risk management strategy, including the way in which risk (or change in risk) is identified, evaluated, and controlled. Include mention of how risk appetites are determined.

[Describe key ways in which risk management is embedded in the activity of the organisation.]

[Describe the key elements of the way in which public stakeholders are involved in managing risks which impact on them.]

Review of economy, efficiency and effectiveness of the use of resources

[Describe the key process that has been applied to ensure that resources are used economically, efficiently and effectively, including some comment on the role of the board, internal audit and any other review or assurance mechanisms.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the audit committee [and risk committee, if appropriate] and a plan to address weaknesses and ensure continuous improvement of the system is in place.

[Describe the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some comment on the role of:

the board;

the audit committee;

if relevant, the risk committee/risk managers/risk improvement manager;

internal audit; and

other explicit review/assurance mechanisms.

Include an outline of the actions taken, or proposed to deal with any significant internal control issues and gaps in control, if applicable.]

Signed.....

Chief Executive

Date: xx June 2006