AGENDA ITEM No.

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

BOARD OF DIRECTORS

THURSDAY 3 JUNE 2010

Title:	**MONITOR ANNUAL REPORT 2009/10**
Report by:	Fiona Alexander, Director of Communications
Contact:	Director of Communications

Purpose:	To provide the Board of Directors with the Trust's Monitor Annual Report 2009/10

Medium term annual plan ref:	

Benefits	N/A		
Risks	N/A		
Financial Implications	None		
Recommen dations	i) The Board of Directors is asked to **APPROVE** the Trust's Monitor Annual Report 2009/10		
Signed		Date	3.06.10

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
REPORT TO THE BOARD OF DIRECTORS ON 3 JUNE 2010

MONITOR ANNUAL REPORT 2009/10

1. Introduction

1.1 This is the Trust's Monitor Annual Report 2009/10 written in line with Monitor's Foundation Trust Financial Reporting Manual 2009/10 (FT FReM) – Appendix 2.

1.2 The guidance is very prescriptive, hence the detail included is not as 'user-friendly' as one would like. It is also repetitive in places, in line with Monitor's requirements

1.3 To remedy this, the Trust will publish its fourth Annual Review which will be presented at the AGM in September. This will be a 'reader-friendly' summary of the performance of the Trust over the past 12 months and will be distributed to a much wider audience, in several formats.

1.4 The report and accounts document is still to be designed before being submitted to Parliament.

1.5 The unaudited first draft of the Annual Report 2009/10 was presented at the Audit Committee on 6 May 2010.

2. Recommendation

i. The Board of Directors is asked to **APPROVE** the Trust's Monitor Annual Report 2009/10

Monitor
Independent Regulator
of NHS Foundation Trusts

NHS Foundation Trust Annual Reporting Manual 2009-10

(Previously titled *Foundation Trust Financial Reporting Manual 2009-10*)

Updated 16 April 2010

Contents

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:
    - o the methods and principles according to which the accounts are to be prepared; and
    - o the information to be given in the accounts.

1.2. These requirements are set out in paragraphs 24 and 25 of Schedule 7 to the National Health Service Act 2006 (the 2006 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 7). Monitor has to obtain HM Treasury's approval for the Accounts Direction. The agreed Accounts Directions in respect of the 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 International Financial Reporting Standards (IFRS) as adopted by the European Union unless directed otherwise. The main source of guidance, therefore, for NHS foundation trust finance staff will be published accounting standards and supplementary guidance.

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 HM Treasury's *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 the *FReM* and provides relevant guidance on departure from IFRS. Divergences from the *FReM* for NHS foundation trusts must be approved by FRAB and the current list of divergences is included in 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 IFRS;
- required to make disclosures which are in addition to IFRS; or
- faced with particular circumstances which IFRS 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. This manual has been finalised following a consultation exercise. A summary of responses to the consultation is available on Monitor's website: www.monitor-nhsft.gov.uk . It may be necessary for Monitor to issue amendments to this manual as issues arise. 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 which includes the directors' report and remuneration report (see paragraph 7.5 for details);
- the accounting officer's statement of responsibilities (see paragraph 7.90 for details);
- the auditor's opinion and certificate (this should include a statement of the auditors' responsibilities in order to satisfy the requirements of paragraph F.1.1 of the Code of Governance);
- the statement on internal control (see paragraph 7.99 for details);
- the foreword to the accounts which should state that the accounts are prepared in accordance with paragraphs 24 and 25 of Schedule 7 to the 2006 Act;
- four primary financial statements (Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Taxpayers' Equity and a Statement of Cash Flows); 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 IFRS 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 8 to the 2006 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 deadlines below for the production of the NHS foundation trust annual reports and accounts for the year ended 31 March 2010. **Please note it is the responsibility of the trust's Accounting Officer (and not the auditors) to comply with these requirements**:

Deadline	What is required?	Where should it be sent?
Thursday 22 April 2010: midday	• **Draft** Annual Accounts; • **Draft** FT consolidated schedules (FTCs); • **MARS/emailed** to Monitor (**NOT** posted), and given to your auditors	**Your MARS portal folder** Ongoing\2009-10\accounts\unaudited **(or in case of technical difficulties) by email:** ft.accounts@monitor-nhsft.gov.uk
Tuesday 8 June 2010: midday	• **Audited** Accounts and • **Audited** FTCs and • **Final** text of the Annual Report • **A copy** of the auditors' final ISA (UK&I) 260 report • **Posted** and **MARS/emailed** to Monitor. (posted first class before the last post on 7 June 2010). It would assist us if subject lines of emails identified the trust and attached copies of certificates and accounts contained signatures as and where appropriate.	**Your MARS portal folder** Ongoing\2009-10\accounts\audited **(or in case of technical difficulties) by email:** ft.accounts@monitor-nhsft.gov.uk **Postal Address:** FT Accounts, Monitor 4 Matthew Parker St London SW1H 9NP

7 July 2010	**Laying annual reports and accounts before Parliament:** • **Full** annual report and **full** statutory accounts (bound as one document) • **5 hard copies** to be **posted** to the Parliamentary Clerk's office for laying before Parliament (posted first class before the last post on 7 July 2010) • *Pdf of report and accounts to be sent to MB-SI@dh.gsi.gov.uk.* **See Annex 2 to Chapter 1 for more details.**	**Postal Address:** Parliamentary Clerk's Office Department of Health Room 301 Richmond House 79 Whitehall London SW1A 2NS
20 July 2010	**Sending laid reports to Monitor:** • **Full** annual report and **full** statutory accounts • **Posted** and **MARS/emailed** to Monitor. One copy to be sent electronically for inclusion on the NHS Foundation Trust Directory on the Monitor website. Two hard copies to be sent by **post** (posted first class before the last post on 20 July 2010). **See Annex 2 to Chapter 1 for more details**	**Your MARS portal folder** Ongoing\2009-10\accounts\audited **(or in case of technical difficulties) by email:** ft.accounts@monitor-nhsft.gov.uk **Postal Address:** FT Accounts Monitor 4 Matthew Parker St London SW1H 9NP

1.14. The Annual Report and Accounts submitted on ***8 June 2010*** must be formally approved by the NHS foundation trust board of directors (the board). After adoption by the board, the chief executive, as the Accounting Officer, should sign and date the Statement of Financial Position and Annual Report as evidence of this. As Accounting Officer, the chief executive should also 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.

1.15. Once the Annual Report and Accounts have been approved the auditor will sign the opinion on the accounts. However, auditors are required to read the information in the Annual Report and refer to this in their audit opinion. Therefore, the draft Annual Report must be submitted to the auditor to allow them sufficient time to do this prior to signing their opinion on the accounts.

1.16. Once the Annual Report and Accounts have been approved, the Accounting Officer or director of finance must sign a certificate which states that the consolidation schedules (FTCs) are consistent with the annual accounts. Annex 4 to this chapter includes the proposed wording for such a certificate.

1.17. 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 7 of the 2006 Act) before the summer recess begins in July 2010 to enable parliamentary scrutiny.

1.18. The requirement to lay the Annual Reports and Accounts before Parliament means that they are classified as an Act Paper and become the property of Parliament. There are strict rules about the format of the publication and these must be followed in every case. These rules can be found in the Journal Office document *Guidance and Requirements for Laying Papers before the House of Commons and their Publication* (April 2009) which can be found at http://www.tso.co.uk/documents/presentationToParliament-Publishing.pdf. It is an NHS foundation trust's responsibility to ensure this is the latest available guidance. There is supporting advice on this process in Annex 2 to Chapter 1 of this document.

1.19. 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 submits to Parliament 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.

1.20. The Annual Report submitted on ***8 June 2010*** must include all of the text which will be included in the final publication submitted to Parliament. This is because the auditors will need to see the form of the annual report prior to signing their opinions. The period between ***8 June 2010*** and submission to Parliament is to allow NHS foundation trusts time to format the document to the standards required for publication.

1.21. Until the Annual Report and Accounts have been laid before Parliament nothing can be published by the NHS foundation trust for the wider public.

1.22. 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 7 of this manual. However, NHS foundation trusts have the discretion to publish Annual Report and Summary Financial Statements locally, see paragraph 1.26 below for more details.

1.23. 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 7 of the 2006 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 7 of the 2006 Act).

Annual general meeting of the board of governors

1.24. The Annual Report and Accounts and auditor's report on the accounts must be presented to the board of governors at a meeting of the board of governors (paragraph 28, Schedule 7 of the 2006 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.

1.25. 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

1.26. Once the full Annual Report and Accounts have 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 2007/01 Example reports by auditors under company legislation in Great Britain. The title of the report should be amended to “Annual Report and Summary Financial Statements”.

1.27. 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:

- 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 s428 of the Companies Act 2006 and Part 3 and Schedule 7 or 8 of The Companies (Summary Financial Statement) Regulations 2008 (SI 2008/374). 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; and

- 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.

1.28. 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

1.29. 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. **NHS foundation trusts should be aware that auditors may require the NHS trust accounts to be prepared in accordance with the NHS foundation trust deadline, where earlier, in order for the auditor to sign their opinion on the NHS foundation trust accounts**.

1.30. 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.

1.31. 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.

1.32. Where an NHS foundation trust is awarded that status from 1 April, there is no requirement to include prior year comparatives for the Statement of Comprehensive Income, Statement of Changes in Taxpayers' Equity and Statement of Cash Flows. However, the opening Statement of Financial Position should be included in the accounts and some supporting notes will have to include an opening balance. The note for mid-year authorised NHS foundation trusts (iFTC34) in the FTC is also required to be completed. These should be drawn up in accordance with the provisions of this Manual.

1.33. 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 Trust Manual for Accounts. The second part-year accounts in respect of the NHS foundation trust must be prepared in accordance with this manual. Opening balances for the Statement of Financial Position and related notes as at the date of the NHS foundation trust's establishment should be disclosed but no other comparatives are required. These should be drawn up in accordance with the provisions of this Manual.

1.34. An NHS foundation trust which started part way through a financial year will show only part year comparatives against its full year results in its second year of operation. The difference in accounting periods should be explained in a narrative note to the accounts.

1.35. The closing balances of the predecessor NHS trust will be transferred to the NHS foundation trust using NHS trust accounting policies. Therefore, in accordance with proper accounting practice, these opening balances must be re-stated in accordance with NHS foundation trust accounting practice where this is materially different, for example where the NHS Trust has assets funded by government grant or donations.

1.36. 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

NATIONAL HEALTH SERVICE ACT 2006

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

Monitor, the Independent Regulator of NHS Foundation Trusts, in exercise of powers conferred on it by paragraphs 24 and 25 of Schedule 7 of the National Health Service Act 2006, hereby directs that the keeping of accounts and the annual report of each NHS foundation trust shall be in the form as laid down in the annual reporting guidance for NHS foundation trusts within the *NHS Foundation Trust Annual Reporting Manual,* known as the *FT ARM*, that is in force for the relevant financial year.

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

Signed:

Name: Chris Mellor (Acting Chairman)

Dated: 7 April 2010

NATIONAL HEALTH SERVICE ACT 2006

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 7 of the National Health Service Act 2006, 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 accounts submitted under paragraph 25 of Schedule 7 of the 2006 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 accounts shall meet the accounting requirements of the '*NHS Foundation Trust Annual Reporting Manual 2009/10*' (*FT ARM*) as agreed with HM Treasury, in force for the relevant financial year.

(3) The Statement of Financial Position 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

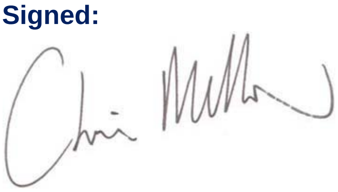
(1) The statement of accounting officer's responsibilities in respect of the accounts shall be signed and dated by the chief executive of the NHS foundation trust.

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: Chris Mellor (Acting Chairman)
Dated: 7 April 2010

Annex 2 to Chapter 1: Laying annual report and accounts before to Parliament

Statutory requirement

NHS foundation trusts are required to lay their annual report and accounts, with any report of the auditor on them, before Parliament.

The annual report and accounts which are laid before Parliament **must include the full statutory accounts and not summary financial statements**.

Once laid before Parliament the content of 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, following laying the document before Parliament, to publish an annual report and *summary* financial statements locally; see paragraph 1.26 for more details.

Until the annual report and accounts have been laid before Parliament, nothing can be published by the NHS foundation trust.

The process of laying papers before Parliament

To lay the report before Parliament, NHS foundation trusts must follow the guidance for laying **unnumbered Act Papers** in the Journal Office document *Guidance and Requirements for Laying Papers before the House of Commons and their Publication* (April 2009). This document can be found at http://www.tso.co.uk/documents/presentationToParliament-Publishing.pdf. It is an NHS foundation trust's responsibility to ensure this is the latest available guidance. This annex provides additional advice on this process which is relevant to NHS foundation trusts.

Your trust's report will be bound together in a series of reports by the House authorities and will be stored in perpetuity. It is therefore very important that reports are produced in the correct format for laying in Parliament as detailed in the Journal Office guidance referred to above. Reports that are not in the correct format will not be accepted for laying. In particular, please note the following requirements:

- The report must be predominately A4 portrait in layout (tables etc may be in landscape orientation but printing the whole document in landscape is not allowed, even if paper is bound along the long side)
- The report must be securely bound (comb or spiral binding is acceptable but presentation in a ring binder is not)
- The cover must be a normal paper/card cover, not plastic or transparent
- The report must have a separate cover and title page.
- The title page is the first inside facing page of the document, and there are specific requirements for the title page to note:
    - It must not be combined with a contents page, preface, or contain any other substantive text or images except that set out below.
    - It should include the full statutory name of your organisation and the title of the document (e.g. Annual Report and Accounts 20xx/xx) and the wording "Presented to Parliament pursuant to Schedule 7, paragraph 25(4) of the National Health Service Act 2006. The reverse of the front cover, and the reverse of the title page, must both be kept blank

You must check that the format and title page of your report are acceptable **before** printing the final copies of the report. Please send a copy of the report with your full contact details (email address and direct telephone number) to Tim.Elms@dh.gsi.gov.uk. You will receive a response to confirm that the format and title page are acceptable and you can then proceed with printing.

When your annual report and accounts are ready to be laid, with the correct information on the title page, the following requirements must be followed.

- The Annual Report and Accounts that each NHS foundation trust lays before Parliament 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.

- The physical act of laying the report as a paper cannot be undertaken by NHS foundation trusts; this will be done by the Department of Health Parliamentary Clerk, who will also arrange for laying letters. To do this, NHS foundation trusts must send five copies of the annual report and accounts to the Parliamentary Clerk (details below). MPs and peers are entitled to their own free copies of all Act papers and further copies will be requested for this purpose if necessary.

- You must also email a pdf of the report to be laid to MB-SI@dh.gsi.gov.uk. This pdf is for the Vote Office and must be sent to the email address above to enable your report to be laid.

To find out when your annual report and accounts have been laid before Parliament, visit the UK Parliament website at www.publications.parliament.uk/pa/cm/cmvote/cmvote.htm. Select a date and go to Appendix 1 for a list of papers laid that day.

Please send your annual reports and accounts for laying to:

Parliamentary Clerk's office
Department of Health
Room 301
Richmond House
79 Whitehall
London SW1A 2NS

On the package label, please clearly state the name of your NHS foundation trust. Please also include a named contact, telephone number and email address, in case of queries.

Deadlines for laying documents before Parliament

All annual reports and accounts must be sent to the Parliamentary Clerk by 7 July 2010 to allow sufficient time for laying before the parliamentary summer recess. Laying reports before the Parliamentary recess ensures appropriate Parliamentary scrutiny. Reports and accounts will be accepted for laying before 7 July 2010 but **all** reports and accounts must be sent to the Parliamentary Clerk by this date. It is the trust's responsibility to ensure its accounts are laid.

Process for sending documents to Monitor

As soon as your annual report and accounts have been laid, you must send one hard copy and one electronic copy to Monitor. The hard copy should be posted in an envelope marked "FT accounts" to:

FT Accounts
Monitor
4 Matthew Parker Street
London
SW1H 9NP

An electronic version must be provided through your MARS portal (or in case of technical difficulties to ft.accounts@monitor-nhsft.gov.uk)

These electronic files will be added to the foundation trust directory of NHS foundation trusts on Monitor's website. Maintaining this directory is a statutory requirement of Monitor under the 2006 Act, and it must be kept up to date at all times.

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 4MB in size. Files larger than this cannot be placed on the directory.

Deadline for documents to be sent to Monitor

All electronic copies should arrive at Monitor by 20 July 2010. All hard copies of the annual report and accounts must be posted first class before the last post on 20 July 2010.

Annex 3 to Chapter 1 – example Certificate on FT Consolidation Schedules

FTC Summarisation Schedules for […] NHS Foundation Trust

Summarisation schedules numbers FTC01 to FTCxx for 20xx/xx are attached.

Finance Director Certificate

1. I certify that the attached FTC schedules have been compiled and are in accordance with:
   - The financial records maintained by the NHS foundation trust; and
   - Accounting standards and policies which comply with the *NHS Foundation Trust Annual Reporting Manual* 20xx/xx issued by Monitor, the Independent Regulator of NHS Foundation Trusts
2. I certify that the FTC schedules are internally consistent and that there are no validation errors*.
3. I certify that the information in the FTC schedules is consistent with the financial statements of the NHS Foundation Trust [**except for [insert text highlighting where the schedules differ from the accounts and explain the differences]].

[signed]

[name], Finance Director

xx June 20xx

Chief Executive Certificate

1. I acknowledge the attached FTC schedules, which have been prepared and certified by the Finance Director, as the FTC schedules which the Foundation Trust is required to submit to Monitor, the Independent Regulator of NHS Foundation Trusts.
2. I have reviewed the schedules and agree the statements made by the Finance Director above.

[signed]

[name], Chief Executive

xx June 20xx

** If you are unable to eliminate validation errors after discussions with your auditors and contacting Monitor then amend this accordingly.*

*** Please insert the 'except for' clause only if applicable*

[for information this revised form of certificate has been provided by the National Audit Office who audit the Consolidated Accounts of NHS Foundation Trusts]

2. Financial reporting requirements

International Financial Reporting Standards (IFRS)

2.1. Monitor has agreed that it will apply the principles outlined in the Treasury's *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 follows International Financial Reporting Standards (IFRS), as adopted by the European Union, to the extent that it is relevant and appropriate to NHS foundation trusts.

- International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).
- International Accounting Standards (IASs) issued by the predecessor International Accounting Standards Committee (IASC) and subsequently adopted by the IASB.
- Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).
- Interpretations issued by the predecessor Standing Interpretations Committee (SIC) and subsequently adopted by IFRIC.
- The 'Framework for the Preparation and Presentation of Financial Statements' issued by the IASC and subsequently adopted by the IASB.
- Certain requirements of the Companies Act 2006.
- The body of accumulated knowledge built up over time and promulgated in text books, research papers and technical journals.

EU-Adopted IFRS

2.3. EU Listed companies that prepare group accounts are required to do so in accordance with IFRS as adopted by the European Union rather than IFRS as published by the IASB. The EU-adoption process was established originally in response to reservations that the EU and practitioners had about certain aspects of IFRS, notably in relation to aspects of accounting for financial instruments. These issues have since largely been resolved as a result of changes made to these standards by the IASB, but there are still a few areas of difference. The main impact of the adoption process is that it usually creates a delay between the IASB or IFRIC issuing a pronouncement and its subsequent EU-adoption, during which time companies cannot early-adopt the new, or amended, requirements. Should practitioners wish to refer to the exact text of EU-adopted IFRS, it can be found in EU Regulation No 1725/2003, as amended, on the following EU website: http://ec.europa.eu/internal_market/accounting/officialdocs_en.htm.

2.4. HM Treasury's approach in the *FReM* is to apply EU-adopted IFRS with some adaptations. Monitor has chosen to require NHS Foundation Trusts to apply IFRS as adopted by HM Treasury in the *FReM* except for certain departures which are listed in Annex 1 to this chapter.

Users of the Annual Report and Accounts

2.5. 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;
- HM Treasury;
- Monitor and other regulatory bodies;
- the NHS foundation trust's board of governors;
- the NHS foundation trust's board of directors and audit committee;
- commissioning PCTs;
- patients and their carers;
- members of the NHS foundation trust; and
- the taxpayer.

2.6. The IASB's Framework for the Preparation and Presentation of Financial Statements sets out the principles that the IASB believes should underlie the preparation and presentation of financial statements for users. The preparers of NHS foundation trust Annual Report and Accounts should familiarise themselves with these principles.

Extant international accounting standards

2.7. The table below sets out all extant IFRS Standards and Interpretations, including those which have recently been published but not yet adopted by the EU. It provides references to the relevant guidance provided in the *FReM* and, where there is guidance relevant to NHS foundation trusts in this manual, the reference is also provided.

Accounting standard		FReM reference	Additional guidance and reference to relevant guidance in this manual
International Accounting Standards (IAS)			
1	Presentation of Financial Statements (Revised September 2007)	2.2.10 to 2.2.15 & 5.4.5 to 5.4.18	Paragraphs 3.1 to 3.8
2	Inventories	10.2.2 to 10.2.9	
7	Statement of Cash Flows	5.4.19 to 5.4.21	Paragraphs 6.2 to 6.4
8	Accounting Policies, Changes in Accounting Estimates and Errors	2.3.1 to 2.3.5	Paragraphs 3.9 to 3.19
10	Events after the Reporting Period	5.4.22 to 5.4.24	Paragraph 3.23
11	Construction contracts	11.3.10 to 11.3.11	Unlikely to be relevant to NHS Foundation Trusts
12	Income taxes	11.4.1 to 11.4.5	
16	Property, Plant and Equipment	6.2.2 to 6.2.24	Paragraphs 5.3 to 5.18
17	Leases	6.2.25 to 6.2.29	Paragraphs 5.45 to 5.49
18	Revenue	11.2.2 to 11.2.18	Paragraphs 4.5 to 4.23
19	Employee Benefits	10.2.10 to 10.2.11 & 12.2.2 to 12.2.5	Paragraphs 4.28 to 4.32
20	Accounting for Government Grants and Disclosure of Government Assistance	6.2.47 to 6.2.52	Paragraphs 4.15 to 4.19
21	The Effects of Changes in Foreign Exchange Rates	11.3.12 to 11.3.16	Unlikely to be relevant to NHS Foundation Trusts
23	Borrowing costs (Revised March 2007)	6.2.53 to 6.2.55	Paragraph 5.32
24	Related Party Disclosures	5.4.60 to 5.4.62	Paragraphs 6.14 to 6.19
26	Accounting for Reporting by Retirement Benefit Plans	Not applicable to NHS Foundation Trusts	
27	Consolidated and Separate Financial Statements	4.2.1 to 4.2.14	Paragraphs 3.24 to 3.31
28	Investments in Associates	4.2.1 to 4.2.14	Paragraphs 3.32 to 3.34
29	Financial Reporting in Hyperinflationary Economies	11.3.17 to 11.3.20	Unlikely to be relevant to NHS Foundation Trusts
31	Interests in Joint Ventures	4.2.1 to 4.2.14	Paragraphs 3.35 to 3.35
32	Financial Instruments: Presentation	9.2.2 to 9.2.4	Paragraphs 5.53 to 5.79
33	Earnings per share	None	Unlikely to be relevant to NHS Foundation Trusts
34	Interim Financial Reporting	5.1.8 to 5.1.9	Not applicable to NHS Foundation Trusts

Accounting standard	FReM reference	Additional guidance and reference to relevant guidance in this manual
36 Impairment of Assets	Chapter 8	Paragraphs 5.29 to 5.31
37 Provisions, Contingent Liabilities and Contingent Assets	10.2 12 to 10.2.18	Paragraphs 5.85 to 5.89
38 Intangible Assets	Chapter 7	Paragraphs 5.24 to 5.28
39 Financial Instruments: Recognition and Measurement	9.2.5 to 9.2.8	Paragraphs 5.53 to 5.79
40 Investment Property	6.2.56 to 6.2.58	Paragraphs 5.50 to 5.51
41 Agriculture	6.2.59 to 6.2.60	Unlikely to be relevant to NHS Foundation Trusts
International Financial Reporting Standards (IFRS)		
1 First-time Adoption of International Financial Reporting Standards	1.7.2 to 1.7.4	Paragraphs 2.12 to 2.14
2 Share-based Payment	None	Unlikely to be relevant to NHS Foundation Trusts
3 Business Combinations	3.2.15 to 3.2.23	Paragraphs 3.38 to 3.48
4 Insurance Contracts	9.2.15 to 9.2.16	Unlikely to be relevant to NHS Foundation Trusts
5 Non-current Assets Held for Sale and Discontinued Operations	6.2.61 to 6.2.63	Paragraphs 4.42 to 4.44 and paragraphs 5.33 and 5.36
6 Exploration for and Evaluation of Mineral Resources	None	Unlikely to be relevant to NHS Foundation Trusts
7 Financial Instruments: Disclosures	9.2.9 to 9.2.11	Paragraphs 5.53 to 5.79
8 Operating Segments	5.4.25 to 5.4.29	Paragraphs 4.37 to 4.41
SIC Interpretations		
7 Introduction of the Euro	None	Not applicable to NHS Foundation Trusts
10 Government Assistance - No Specific Relation to Operating Activities	6.2.49	Unlikely to be relevant to NHS Foundation Trusts
12 Consolidation - Special Purpose Entities	None	
13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers	None	
15 Operating Leases - Incentives	6.2.27	
21 Income Taxes - Recovery of Non-Depreciable Assets	11.4.4	
25 Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	11.4.5	Unlikely to be relevant to NHS Foundation Trusts
27 Evaluating the Substance of Transactions Involving the Legal	6.2.28	

Accounting standard		FReM reference	Additional guidance and reference to relevant guidance in this manual
	Form of a Lease		
29	Disclosure - Service Concession Arrangements	None	Relevant. See paragraph 5.42
31	Revenue - Barter Transactions Involving Advertising Services	11.2.4	
32	Intangible Assets - Web Site Costs	7.2.8 to 7.2.10	
IFRIC Interpretations			
1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	10.2.19 to 10.2.20	
2	Members' Shares in Co-operative Entities and Similar Instruments	9.2.11 to 9.2.12	Unlikely to be relevant to NHS Foundation Trusts
4	Determining whether an Arrangement contains a Lease	6.2.29	Paragraphs 5.48 to 5.49
5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	10.2.21 to 10.2.23	Unlikely to be relevant to NHS Foundation Trusts
6	Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment	None	Not applicable to NHS Foundation Trusts
7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*	11.3.20	Unlikely to be relevant to NHS Foundation Trusts
8	Scope of IFRS 2	None	Unlikely to be relevant to NHS Foundation Trusts
9	Re-assessment of Embedded Derivatives	9.2.13 to 9.2.14	Paragraph 5.71
10	Interim Financial Reporting and Impairment	None	Not applicable
11	IFRS 2 - Group and Treasury Share Transactions	None	Unlikely to be relevant to NHS Foundation Trusts
12	Service Concession Arrangements	6.2.30 to 6.2.46	Relevant. See Paragraph 5.38
13	Customer Loyalty Programmes	None	***Unlikely to be relevant to NHS foundation trusts***
14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	None	***Potentially relevant to any pension schemes which are accounted for as defined benefit e.g. a Local Government scheme***

Recent amendments to standards

2.8. Where the IASB has issued amendments to standards, NHS foundation trusts should apply those amendments in accordance with the applicable timetable, but should not seek to early-adopt any changes. The following table lists recent changes to standards and the years in which they should be applied:

Change published	Published by IASB	Financial year for which the change first applies
IAS 27 'Consolidated and Separate Financial Statements'	January 2008 May 2008	2010/11 2009/10
IAS 39 'Financial Instruments: Recognition and Measurement'	July 2008 November 2008 March 2009	2010/11 2009/10 2009/10
IAS 32 'Financial Instruments: Presentation'	February 2008	2009/10
IFRS 1 'First Time Adoption of IFRS'	May 2008	2009/10
IFRS 2 'Share Based Payment'	January 2008	2009/10
IFRS 3 'Business Combinations'	January 2008	2010/11
IFRS 7 'Financial Instruments: Disclosures'	November 2008 March 2009	2009/10 2009/10
IASB 'Improvements to IFRS'	May 2008	2009/10 (except change to IFRS 5) 2010/11 (IFRS 5 amendment)
IASB 'Improvements to IFRS'	April 2009	2010/11 Except the amendment to IFRS 8 which is adopted early in this manual for 2009/10

Other relevant accounting pronouncements

2.9. Certain types of transactions, for which there are no relevant requirements under IFRS, should be accounted for using the appropriate UK GAAP requirements. These transactions are set out in the following table:

Transactions not covered by IFRS requirements	Applicable accounting requirements for NHS Foundation Trusts
Accounting for value added tax (VAT).	SSAP 5
Accounting for Group Reconstructions/ 'machinery of government changes' which fall outside the scope of IFRS 3 'Business Combinations'.	The merger accounting principles and disclosures in FRS 6 and the disclosure requirements of Paragraph 11 of Schedule 6 to The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). See paragraphs 3.38 to 3.47

Companies Act 2006 requirements

2.10. Although the adoption of IFRS means that the main accounting requirements of the Companies Act 2006 do not apply, there are nevertheless some disclosure requirements that remain applicable to UK entities reporting under IFRS, including NHS foundation trusts.

2.11. The key requirements are set out in the table below. However, the list is not exhaustive and, as with the existing *FReM* and Companies Act, NHS foundation trusts will need to ensure they comply with all relevant requirements of the Companies Act 20

CA 2006 Reference	Regulations[1] Reference	Description	Reference to relevant Guidance in this Manual
Section 409	Regulation 7 and Schedule 4	Information about related undertakings in a note to the accounts	Paragraph 6.20
Section 410A[2]		Information about off-Statement of Financial Position arrangements in a note to the accounts	Paragraphs 5.43 to 5.44.
Section 411		Information about employee numbers and costs in a note to the accounts	Paragraphs 4.57 to 4.60.
Section 412 (1) to (5)	Regulation 8 and Schedule 5	Information about directors' benefits: remuneration, in a note to the accounts	Paragraphs 4.53 to 4.56.
Section 413		Information about directors' benefits: advances, credit and guarantees, in a note to the accounts	Paragraphs 4.53 to 4.56.
Sections: 415(1) to (3) 416 to 417; 418(1) to (4);and 419(1).	Regulation 10 and Schedule 7	Directors' report	Paragraphs 7.6 to 7.22.
Sections: 420(1); 421(1) to (2);and 422(1).	Regulation 11 and Schedule 8	Quoted Companies: Directors' Remuneration Report	Paragraphs 7.23 to 7.47.
Section 428	"The Companies (Summary Financial Statement) Regulations 2008": Part 3 and Schedule 7 or 8	Form and contents of summary financial statement: quoted companies *(applicable only if an NHS Foundation Trust chooses to prepare an additional Annual Report and Summary Financial Statement)*	If an NHS foundation trust chooses to prepare an Annual Report and Summary Financial Statement, the requirements in paragraphs 1.26 to 1.28 must be followed.

[1] "The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)"

[2] Inserted in the Act by "The Companies Act 2006 (Accounts and Reports) (Amendment) Regulations 2008 (SI 2008/393)".

First-time adoption of International Financial Reporting Standards (IFRS 1)

2.12. IFRS 1 requires that where an entity adopted IFRS for the first time, comparative amounts should be restated to reflect the new accounting policies, and that the Date of Transition to IFRS is the beginning of the earliest comparative year reported in the financial statements. For NHS Foundation Trusts applying IFRS from 2009/10 using this Manual, this means that the effective Date of Transition to IFRS is the later of 1 April 2008 and the date of establishment as an NHS foundation trust.

2.13. The IFRS also requires that accounting policies are applied retrospectively i.e. as if the transactions had always been accounted for under the new policy. The Standard does however provide some optional exemptions from this requirement:

IFRS 1 Optional Exemptions from Retrospective Application	Relevance to NHS Foundation Trusts
Business Combinations – no need to restate business combinations that occurred prior to the Date of Transition to IFRS.	Limited relevance - IFRS 3 is only applicable to business combinations involving the acquisition of activities from outside the UK public sector. See paragraph 3.48.
Using the fair value of Property, Plant and Equipment (PPE) as Deemed Cost at Date of Transition	Not relevant – FTs are not permitted to use the Cost approach to measuring PPE under IFRS.
Employee Benefits – where an entity uses the Corridor Approach, it may elect to recognise all cumulative actuarial gains and losses at the Date of Transition rather than apply the Approach retrospectively.	Not relevant – FTs are not permitted to use the Corridor Approach under IFRS.
Cumulative translation differences in respect of foreign operations	Not relevant – currently no FTs have foreign operations.
Compound Financial Instruments – no requirement to separate into equity components where liability is not outstanding at the Date of Transition to IFRS.	Limited relevance - FTs cannot issue compound instruments, although it could be relevant to any subsidiaries that had done so.
Investments in subsidiaries, jointly controlled entities and associates In the parent entity accounts, existing subsidiaries can be measured at Cost or Deemed Cost, where the latter can be either the amount measured under IAS 39 or the existing UK GAAP carrying amount.	Relevant to the parent entity accounts of FTs which have existing subsidiaries.
Assets and Liabilities of subsidiaries, associates and joint ventures – where they move to IFRS later than the parent, they can use the IFRS values from the group financial statements.	Not directly relevant to FTs – this could be relevant to any subsidiary companies which do not adopt IFRS from 2009/10 and do so subsequently.
Designation of previously-recognised financial instruments	Not applicable, as it relates to the option to designate financial instruments at the Date of Transition to IFRS (1 April 2008) which has already passed.
Share-based payment transaction	Not applicable to FTs – but could be relevant to any subsidiary companies.
Insurance contracts	Not applicable.
Decommissioning liabilities included in the cost of PPE	Limited relevance.
Determining whether an arrangement contains a lease	Relevant, see paragraph 5.49.

IFRS 1 Optional Exemptions from Retrospective Application	Relevance to NHS Foundation Trusts
Fair Value measurement of financial assets or financial liabilities at initial recognition	Relevant. 'Day 1' gains or losses which can occur on initial recognition at fair value, can be recognised retrospectively for all transactions or prospectively for transactions entered into either after 25 October 2002 or after 1 January 2004.

2.14. The Standard also sets out a number of areas where retrospective application of the accounting policies prior to the Date of Transition is prohibited:

IFRS 1 Prohibition on Retrospective Application	Relevance to NHS Foundation Trusts
De-recognition of financial assets and financial liabilities – De-recognition requirements applied prospectively from 1 January 2004.	Relevant – see paragraph 5.61
Hedge Accounting – a hedging relationship cannot be recognised from the Date of Transition unless it meets the criteria in IAS 39	Limited relevance – FTs do not generally engage in hedging activities.
Estimates – an entity's estimates at the Date of Transition shall be consistent with the estimate under the previous GAAP unless there is objective evidence that those estimates were in error	Relevant – The transition to IFRS cannot be used to alter estimates (where the impact of the correction would be taken directly to opening reserves) unless the estimates were in error.
Assets classified as held for sale and discontinued operations – IFRS 5 must be applied prospectively from 1 April 2005. It can be applied from an earlier date but only to all applicable assets and only if sufficient information is available to do so.	Relevant – see paragraph 5.36

First time adoption of IFRS – Private Finance Initiative transactions

2.15. Existing PFI schemes should be assessed in accordance with IFRIC 12, as described in paragraphs 5.38 to 5.41. There is no exemption from retrospective application. Where a PFI scheme is assessed as falling within the scope of IFRIC 4 rather than IFRIC 12, then the IFRIC 4 exemption in paragraph 5.48 can be applied.

First time adoption of IFRS – Financial Instruments

2.16. Paragraph 1.7.4(e) of the *FReM* provides exemption from the requirement to restate comparative information for IAS 32, 29 and IFRS 7. Monitor has decided not to make this exemption available to NHS foundation trusts, since the equivalent UK standards were adopted in the 2007/08 *NHS Foundation Trust Financial Reporting Manual* and, therefore, the comparative information should already comply with these international standards.

First time adoption – potential impact for NHS foundation trusts

2.17. Annex 3 to this chapter contains a commentary on the areas of potential greatest impact for NHS foundation trusts moving from the existing UK GAAP-based manual to this IFRS-based manual.

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 (A-in-A) apply	A-in-A 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 *Prudential Borrowing Code.*
Have cash limits	NHS foundation trusts are required to comply with the *Prudential Borrowing Code* but do not have cash limits.
Have an Operating Cost Statement	Have a Statement of Comprehensive Income.
Have a General Fund	Have Public Dividend Capital and pay dividends.
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 bodies covered by the *FReM*, the following are approved accounting practices in NHS foundation trusts that differ from those in the *FReM*:

FReM requirement	**NHS foundation trust accounting**
Cost of capital is a notional cost (paragraph 11.5.3)	NHS foundation trusts do not recognise notional costs.
A Government Grant reserve is used to record government grants received for the purchase of fixed assets (paragraph 6.2.34 (b)).	Government grants are held as deferred income in accordance with IAS 20.
The *FReM* states that Big Lottery grants should be treated as donated assets rather than government grants (paragraph 6.2.12).	NHS foundation trusts are required to account for Big Lottery grants (and grants from its predecessor body, the New Opportunities fund) as government grants where the grant has been received by the NHS foundation trust itself.
Where the information on directors' remuneration required by sections 412 and 413 of the Companies Act 2006 is readily ascertainable from the Directors' remuneration report, it need not be disclosed in a note to the accounts (Paragraph 4.4.4(b)). The [IAS 24 – Related Party Disclosures] requirement to disclose the compensation paid to management…….will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report (Paragraph 4.4.60(c))	Information on directors' remuneration should be disclosed in a note to the accounts, as required by the CA 2006 and IAS 24, separate from the directors' remuneration report.
Financial instruments: The *FReM* requires that where future cashflows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real discount rate set by HM Treasury as applied to the flows expressed in current prices (Paragraph 9.2.7(d)).	Where future cashflows are discounted to measure fair value, NHS foundation trusts should use a market rate for similar instruments and similar entities (adjusted for credit risk where appropriate).

Annex 2 to Chapter 2: Main differences between NHS trust and NHS foundation trust accounts

Main differences between NHS trust and NHS foundation trust accounts

This table is intended to assist new NHS foundation trusts to identify the main differences between the IFRS accounts they prepare as NHS trusts and those which they will be required to prepare as an NHS foundation trust. Where notes to NHS trust accounts do not differ from NHS foundation trusts they are not listed in this table.

The differences described below are based on the latest versions of the draft Chapters 3, 7 and 8 of the NHS Trust IFRS-based Manual for Accounts 2009/10 as at May 2008.

Main statements	
Statement of Comprehensive Income	No significant differences.
Statement of Financial Position	NHS foundation trusts will not have a government grant reserve but may have government grant deferred in creditors (see paragraph onwards) NHS foundation trusts will include any Big Lottery grant payments as government grants rather than donated assets.
Statement of Changes in Taxpayers' Equity	NHS Foundation Trusts will not have a government grant reserve.
Statement of Cash Flows	Additional sections may need to be added to recognise the different financing arrangements for NHS foundation trusts.
Notes to the accounts	
Accounting policies	This note will have to be adapted to suit the policies adopted by the NHS foundation trust. Example policies are appended to Chapter 3 but these must be tailored by each body for their own circumstances. The accounting policies in relation to accounting for Government grants and Big Lottery payments are different to the policies adopted by NHS trusts under direction from the Secretary of State.
Revenue from patient care activities	The analysis of income 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. (From 2007-08 an income analysis appropriate for Mental Health foundation trusts was introduced in FTC forms) NHS foundation trusts are also required to disclose their income from mandatory and non-mandatory services.
Other operating revenue	NHS foundation trusts also have to include a note to disclose private patient income and the cap on such income.
Better payment practice code	This note is 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.
Interest payable and similar charges	NHS foundation trusts will also have to disclose their performance against the *Prudential Borrowing Code*.

Main statements	
Property, Plant and Equipment	NHS foundation trusts should disclose all property, plant and equipment on a gross basis with accumulated depreciation. The opening accumulated depreciation balance will be the amount brought forward from the previous year other than in the year of a revaluation. NHS trusts are required to reset brought forward accumulated depreciation to nil on some occasions.
Creditors	NHS foundation trusts show government grants (including Big Lottery fund grants) as deferred income.
Financial performance targets	The standard NHS Trust note is not required but it 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.
Pooled budget arrangements	Not required by the *FReM* or by IFRS and therefore not necessary for NHS foundation trusts unless the pooled budget agreement specifies that the memorandum account will be included in the accounts.

Annex 3 to Chapter 2: Possible impact of IFRS on NHS foundation trust financial statements

1. This annex describes, in general terms, the impact that the transition to IFRS may have on the financial reporting of NHS foundation trusts. It is based on the experience of listed companies when they undertook the transition a few years ago, together with an evaluation of the accounting requirements in the near final draft of the Treasury *FReM* and existing NHS foundation trust accounting requirements and practices.

2. A key message from the private sector experience is that the 'devil is in the detail'. The comments in this annex are therefore intended to give only an overall assessment of the potential impact to NHS foundation trusts in general. However, individual standards may impact different NHS foundation trusts in different ways due to the nature of local transactions.

3. The annex is divided into the following sections:

   - areas of greatest likely impact; and

   - other areas of possible significant impact.

4. This can only be a general picture of those standards likely to have the most significant impact. Where a standard is not described below it is likely, nevertheless, to have some impact on financial reporting, and NHS foundation trusts should ensure that they consider the impact of all IFRS requirements on their transactions and that they comply with the requirements of IFRS, as interpreted by this manual, in all material respects.

Areas of greatest likely impact

5. This section describes the areas of IFRS which Monitor anticipates will have the greatest impact for most or all NHS foundation trusts:

   - Private Finance Initiative contracts;

   - Leases; and

   - Segmented Operations.

Private Finance Initiative contracts

6. The 'Control' approach under IFRIC Interpretation 12 'Service Concession Arrangements' is very different to the present 'Risk and Reward' approach under Application Note F to FRS 5 and the Treasury Taskforce Technical Note Number 1. The new requirements mean that it is likely that most PFI schemes held by NHS Foundation Trusts will need to be recognised 'on-Statement of Financial Position' under IFRS. Where a scheme is brought 'on-Statement of Financial Position', the property assets will need to be recognised along with an equivalent financial liability. Where there are deferred assets and residual interest assets associated with off-balance sheet PFI schemes under UK GAAP at present, these will need to be de-recognised. The annual Unitary Payment will need to be split between a services element (which would continue to be expensed) and a property element which in turn would need to be split into an element to reduce the financial liability and an annual finance charge.

Leases - IAS 17

7. The international standard for leases matches the UK equivalent insofar as it distinguishes between finance and operating leases. The '90% test' found in SSAP 21 does not appear in IAS 17, but there are a number of qualitative indicators to distinguish between finance and operating leases, which are consistent with the principles of SSAP 21.

8. A significant difference between the two standards is in respect of leases of land and buildings. Under IAS 17, all such leases must be split between the land component and the building component, and each assessed separately. Furthermore, the international standard requires that all land leases are treated as operating leases (due to the emphasis that the standard places on residual value risk which always lies with the freeholder).

9. In practice this means that:

    - Finance leases that include land will have to be split and the land element reclassified as an operating lease.

    - Operating leases of land and buildings will need to be split and the building element considered separately. In some cases this might result in the building element being reclassified as a finance lease.

    - Where land acquired on a long lease through an up-front lease premium is currently recorded as a fixed asset (with no finance lease liability recognised), the lease will need to be reclassified as an operating lease and appropriate accounting adjustments made e.g. reclassifying the lease premium as a prepayment within current and non-current assets.

10. A number of complications may arise when an NHS foundation trust analyses its lease arrangements, for example:

    - Lease documentation may be difficult to locate, incomplete or even missing.

    - Determining the split of the lease between the land and building elements may require a significant degree of subjective judgement.

11. Another significant difference in implementing international standards relates to IFRIC 4 'determining whether another arrangement contains a lease'. Under this interpretation, arrangements should be assessed to determine whether they contain leases that should be accounted for in accordance with IAS17.

12. There are many arrangements in the NHS whereby one NHS body uses facilities and services belonging to another. Often these arrangements are informal in nature and each party simply accounts for a revenue transaction without recognising any underlying lease. All such arrangements will need to be analysed and may result in more leases being recognised than currently.

Segmented Operations - IFRS 8

13. NHS foundation trusts typically have not disclosed segmented operations under UK GAAP, instead often treating 'Healthcare' as one segment. Under IFRS, NHS foundation trusts will need to provide disclosures on significant segments of their operations.

14. IFRS 8 places emphasis on reporting disclosures that reflect the way that management runs the entity. This involves firstly identifying the Chief Operating Decision Maker (CODM) which is the person or persons who receive and monitor financial information analysed by internal segments and uses that information to allocate resources. The significant segments that are reported internally are then the ones that are required to be

disclosed in the financial statements. A significant segment is one whose revenue is at least 10% of the entity's overall revenues. If an NHS foundation trust does not report revenues for segments in its internal reporting, then an interpretation has been included in this manual that reportable segments should be identified instead by reference to expenditure. (See paragraphs 4.37 to 4.39 for details).

15. The information disclosed in the accounts reflects exactly that reported internally i.e. if it includes internal revenues and recharges then these are reported in the financial statements and the items need not be on an IFRS basis. There is however a requirement to include a reconciliation of the amounts reported in these segments to the total amounts reported in the financial statements.

Other areas of possible significant impact

Presentation of financial statements - IAS 1 & 7

Statement of Comprehensive Income (IAS 1, Revised)

16. Under IAS 1 (Revised), entities are required to prepare a Statement of Comprehensive Income which will effectively combine the present Income and Expenditure Account and Statement of Total Recognised Gains and Losses.

17. The standard does not prescribe the format of the statement, but does require the following items to be recorded on the face of the Statement:

- Revenues;
- Finance costs;
- Share of profit/loss of associates and joint ventures accounted for using the equity method;
- Tax expense;
- Post-tax profits and losses of discontinued operations;
- Profit or Loss (where applicable split between that attributable to minority interests and that attributable to equity holders of the parent); and
- other items of recognised income and expense (e.g. revaluation gains/losses on property, plant and equipment).

18. An analysis of expenses must be given either on the face of the Statement of Comprehensive Income (the standard's preference) or in a note to the accounts. This analysis must be either by the nature of the expense (e.g. staff costs, depreciation) or by the function (e.g. cost of sales, administrative expenses).

Statement of Financial Position

19. Under IFRS, the balance sheet is renamed the Statement of Financial Position. IAS 1 includes the minimum requirements for disclosing information on the face of the Statement of Financial Position. These are similar to present UK GAAP requirements, although 'Assets held for disposal' are required to be disclosed separately.

20. There are two options for the structure of the Statement of Financial Position. The standard's preferred option is to disclose current and non-current assets and current and non-current liabilities as separate classifications. The second option is to structure the Statement of Financial Position in the order of liquidity where that provides information that is more relevant and reliable.

21. To promote consistency and comparability, the Treasury has removed the liquidity option in its *FReM*, and this has been replicated in the *NHS Foundation Trust Annual Reporting Manual.*

Statement of Cash Flows - IAS 7

22. There are two significant differences under IFRS that will affect NHS foundation trusts, but these reflect changes to the structure of the statement rather than requiring more information to be disclosed. Firstly, transactions in the Statement of Cash Flows need to be reported under three sections Operating, Investing and Financing, compared with the current requirement to report under nine standard headings.

23. Secondly, under IFRS, the Statement of Cash Flows reports movements in cash and cash equivalents rather than simply cash as at present. The definition of cash equivalents is effectively the same as 'liquid resources' under FRS 1, and therefore in practice the cashflows currently reported under 'management of liquid resources' would simply move to the end of the statement.

Statement of Changes in Equity (SoCiE)

24. IAS 1 (Revised) requires other movements in equity to be shown in a Statement of Changes in Equity (SoCiE).

    - In practice this statement is equivalent to the combination of the present Movement in Reserves note and Movement in Public Dividend Capital note.

Accounting policies - IAS 8

25. IAS 8 requires that entities adopt those accounting policies that provide the most relevant and reliable information. Changes of accounting policy should only occur where they will provide more relevant and reliable information.

26. When selecting accounting policies, the standard provides a hierarchy of guidance for entities to follow. Entities should refer initially to any international standards or interpretations and then to the IASB Framework. In the absence of a standard or interpretation, when deciding on a policy, entities may also refer to recent pronouncements of other standard-setting bodies that use a similar conceptual framework (such as UK GAAP), other accounting literature and accepted industry practices provide that none of these conflict with an international standard, interpretation or the Framework. However, NHS foundation trusts should always consult this Manual in the first instance in any cases where they have transactions for which there is no IFRS requirement or guidance.

27. Where a new international accounting standard has been issued, but not yet implemented then entities are required to disclose in their financial statements the nature of the standard, and if possible, an estimate of its likely effect on future financial statements. In the private sector 'issued' has been interpreted widely, so that it includes standards issued by the IASB even if they haven't yet been adopted by the EU (and therefore couldn't yet be implemented).

28. When considering how to correct errors in the accounts, IAS 8 does not have the distinction between fundamental errors and other errors that exists in UK GAAP. Under IFRS, where an error is material, it must be corrected through a prior period adjustment. This contrasts with UK GAAP where a prior period adjustment to correct an error is only permitted where the effect is fundamental to one or more prior year accounts. Under IFRS therefore, one might expect to see more prior period adjustments to correct errors in accounts.

Tangible Fixed Assets - IAS 16, 23 & 36, IFRS 5 (part)

General requirements - IAS 16

29. IAS 16 is the main standard dealing with property, plant and equipment and is generally very similar to its UK GAAP equivalent (FRS 15). Both FRS 15 and IAS 16 permit fixed assets to be held at cost or at a valuation. The *FReM* continues the practice of requiring assets to be held at valuation and this is replicated in this *NHS Foundation Trust Annual Reporting Manual.*

30. There are significant differences between the requirements of the other three standards and the current *NHS Foundation Trust Annual Reporting Manual* in respect of borrowing costs, impairments and assets held for disposal.

Borrowing costs - IAS 23

31. A revised version of the IAS 23 was issued in March 2007 and requires interest costs on specific borrowings to be capitalised as part of the fixed asset cost. This represents a departure from previous practice by UK government bodies but nevertheless, the Treasury have adopted the revised standard in their *FReM*.

32. However, the requirements of the standard are not mandatory for assets held at fair value, and thus do not apply as Monitor has adopted the Valuation Approach under IAS 16. Under IAS 23 such entities do still have the option to capitalise borrowing costs for initial measurement of the assets prior to the first revaluation, but Monitor has chosen not to permit NHS foundation trusts to exercise this option to capitalise borrowing costs for initial measurement.

Impairment of fixed assets - IAS 36

33. Under UK GAAP, a distinction is drawn between impairments arising from a loss of economic benefit to the asset itself e.g. physical damage, and other impairments. Impairments of the former type are charged directly to the Income and Expenditure Account. Other impairments, however, are charged initially to the Revaluation Reserve to the extent that it contains a balance in respect of that asset, and only thereafter, to the Income and Expenditure Account.

34. Under IAS 36, there is no such distinction between an impairment arising from a loss of economic benefits and other impairments. All impairments are therefore charged initially to the Revaluation Reserve, to the extent that there is an available balance for that asset, and only thereafter to operating expenses if necessary. Consequently, under IFRS, it is likely that fewer impairments will be charged to operating expenses.

Assets Held for Sale - IFRS 5 (part)

35. The present requirements under UK GAAP and the *NHS Foundation Trust Annual Reporting Manual* are that, where assets are measured at valuation, any assets that become surplus to requirements and earmarked for disposal should be held at Open Market Value. Under IFRS, where assets are marked for disposal and meet certain requirements e.g. capable of being sold immediately and being actively marketed, they fall within the scope of IFRS 5. Under this standard, the assets are then held at the lower of their carrying value and 'fair value less costs to sell'.

36. This may have a significant impact for NHS foundation trusts, due to the fact that most healthcare properties are considered to be specialised and, as noted above, are generally held at DRC. This valuation is usually lower than the open market value (OMV) of the site, because the latter will reflect possible alternative uses such as residential use, and therefore such assets would not be re-valued to an amount more closely reflecting their OMV. There is thus a greater likelihood under IFRS of NHS foundation trusts recording profits on disposal in operating income when they sell fixed assets. However, there

should not be any overall impact on the I&E reserves of NHS foundation trusts as presently under UK GAAP the gain in value is recognised initially in the revaluation reserve but then any balance attributable to the asset is transferred from the revaluation reserve to the Income and Expenditure Reserve when the disposal is recognised in the accounts.

Intangible Fixed Assets - IAS 38

37. There are two significant differences between UK GAAP and IAS 38. The first is a requirement to recognise more intangible assets acquired through acquisition of another entity in a business combination. As discussed below, the use of acquisition accounting by NHS foundation trusts is likely to be rare and therefore this difference is likely to have a limited impact in practice.

38. The second difference is that, where certain criteria are met, development expenditure must be capitalised. This contrasts with SSAP 13 where entities have the choice as to whether to capitalise development costs. At present very few NHS foundation trusts recognise internally generated intangible assets and thus it is difficult to gauge the types of activities being undertaken and whether they might require recognition as intangible assets under IFRS.

39. Under IAS 38, intangible assets are initially measured at cost, but thereafter entities have a choice between continuing to measure them at cost or at a valuation. The Treasury's *FReM* removes the cost option and requires bodies to measure them at valuation. Monitor has followed this approach in this manual and specified the use of the valuation approach.

40. An additional point is that, unlike UK GAAP, accounting for software costs is specifically addressed under IAS 38. Where purchased software is integral to the operation of an item of hardware, for example operating system software, then the cost should be capitalised as part of that item of property, plant and equipment. Where the software is not integral to operating the hardware for example, application software, this should be capitalised as an intangible fixed asset. Many NHS foundation trusts already capitalise application software as intangible fixed assets. Where operating system software is currently capitalised as an intangible fixed asset, this will require reclassification and included as part of the item of property, plant and equipment to which it relates.

Employee Benefits - IAS 19

41. This standard deals with both current employee benefits such as salaries, and retirement benefits.

Current employee benefits

42. For current employee benefits, the requirements are generally straightforward. There is, however, one area where a significant impact may occur for NHS foundation trusts, in respect of holiday pay, due to the fact that UK entities – both public and private sector – have not generally recognised accruals for holiday pay earned by employees which they have not taken but to which they remain entitled, at the end of the financial year.

Retirement benefits

43. The requirements here are similar to those of FRS 17, such as the distinction between defined benefit schemes and defined contribution schemes. Where multi-employer defined benefit schemes exist and the assets and liabilities cannot be split between the relevant parties then, as with FRS 17, they can be accounted for as defined contribution schemes. However, a difference under IAS 19 is that it assumes that all employers are members of the same group and therefore requires that one of the group companies

recognises the overall scheme assets and scheme liabilities in its accounts. This requirement doesn't translate easily to the UK public sector schemes such as the NHS Pension Scheme, but here the requirement appears to be satisfied by the fact that the NHS Pension Scheme prepares its own resource accounts, which are aggregated into the Whole of Government Accounts and which include the present value of future scheme liabilities.

44. Thus NHS foundation trusts should continue to account for the NHS Pension scheme as a defined contribution scheme. In this circumstance there are additional disclosure requirements under IFRS, but FRS 17 itself has been amended to reflect these requirements, and this amendment was adopted into the *NHS Foundation Trust Financial Reporting Manual* from 2007/08.

45. There may be some NHS foundation trusts with former local government employees who remain members of the Local Government Pension Scheme (LGPS). The LGPS is also a multi-employer defined benefit scheme, but the assets and liabilities are generally capable of being identified separately between the employers and thus NHS foundation trusts should currently be accounting for their share as a defined benefit scheme. This should continue under IFRS, where the accounting requirements are similar to FRS 17, except in respect of accounting for actuarial gains and losses.

46. Under IAS 19, entities can choose to recognise actuarial gains and losses in one of three ways:

    - Recognise all such gains and losses as revenue income or expense (few entities use this option).
    - Recognise all such gains and losses in reserves (the equivalent to current FRS 17 practice).
    - Use a 'corridor approach' whereby gains and losses up to a threshold can be recognised in reserves, with the remainder (if any) required to be recognised as revenue income or expense, but spread over the average remaining working lives of the employees (similar to the old SSAP 24 principle for pension fund surpluses or deficits).

47. The *FReM* has prohibited the use of the corridor approach for the recognition of actuarial gains and losses on defined benefit pension schemes. Monitor has done the same in this manual, which requires NHS foundation trusts to recognise all actuarial gains and losses directly in reserves.

Related Party Disclosures - IAS 24

48. The requirements of IAS 24 are similar to those of FRS 8, but most of the disclosure exemptions that the latter has do not appear in the international standard, for example, transactions with parents or subsidiaries.

49. IAS 24 requires various disclosures of key management compensation, which are not satisfied by the disclosure requirements for directors remuneration under the Companies Act 2006 (which remains relevant under IFRS) and thus additional disclosures may be needed to comply with the standard. For example, under IAS 24, the structure of the disclosures is different, with management compensation required to be analysed between: short term employee benefits; post-employment benefits; other long term benefits; termination benefits and share-based payments. Within this, the items to be included can be different to the Companies Act disclosures, for example short term benefits includes social security contributions, which in the UK would also encompass employers' national insurance contributions.

50. The IAS requires the disclosures to be included in the notes to the financial statements. Where, therefore, the Remuneration Report is included in the Annual Report rather than

the financial statements, the IFRS disclosures will still have to be included in the notes to the financial statements.

51. There is no exemption from disclosure under IAS 24 in instances where disclosure would conflict with an entity's legal duty of confidentiality.

Consolidated Accounts and Business Combinations - IAS 27, 28 & 31, IFRS 3 & 5 (part)

52. The *FReM* adopts IAS 27, 28 and 31 in full, but retains the override from the UK GAAP based *FReM* that consolidation encompasses only those entities within the Departmental Boundary, regardless of whether they should be a subsidiary, associate, joint venture or joint arrangement under the standards. This override is not relevant to NHS foundation trusts as they lie entirely outside resource accounting boundaries. They thus must follow the requirements of the standards.

Subsidiary undertakings - IAS 27

53. The requirements for recognising entities as subsidiaries under IAS 27 are identical to those of UK GAAP following the latter's amendment a few years ago to bring it into line with IFRS, so that where entities have the power to control or exercise a dominant influence over another entity so as to obtain benefits, this is sufficient to require recognition as a subsidiary.

54. Where for instance, an NHS foundation trust is the corporate trustee to an NHS charitable fund, it may meet the control criteria under the standard and therefore be required to be consolidated. However, HM Treasury has granted a dispensation - for 2009/10 and 2010/11 only - to the application of IAS 27 by NHS foundation trusts in relation to NHS charitable funds. The disclosure requirements of the standard still apply.

Associated undertakings - IAS 28

55. The concept of an associated undertaking under IAS 28 is similar to that of FRS 9, but there are two significant differences. Firstly, recognition of an entity as an associate under IFRS requires merely the power to exercise a significant influence over it to gain access to economic benefits, rather than FRS 9's recognition criteria of having the power to exercise a significant influence to gain access to economic benefits **and** actually exercising that influence. It is therefore likely that more entities would qualify for recognition as associated undertakings under IFRS.

56. The second area of difference is that FRS 9 only requires entities to equity account for associates where they are already preparing group accounts; otherwise they can simply record them as a fixed asset investment. Under IAS 28, equity accounting of associates is required even where group accounts are not already being prepared. The effect of these two differences is that the accounts of NHS foundation trusts may include equity-accounted associates more frequently than is currently the case under UK GAAP.

Joint venture and joint arrangements - IAS 31

57. There are no significant differences between FRS 9 and IAS 31 in respect of joint venture and joint arrangements.

Business combinations – IFRS 3

58. IFRS 3 'Business combinations' differs significantly from FRS 6 and 7 insofar as merger accounting is not permitted and all business combinations are deemed to have an acquirer and an acquiree. However, the standard excludes from its scope transactions which meet the definition of 'Group reconstructions'. The definition is similar to the existing provisions for business combinations involving 'Entities under common control' in FRS 6. The Treasury has continued its existing *FReM* interpretation that any transfer of

responsibilities or services from one part of the public sector to another is a 'machinery of government change' and qualifies as a group reconstruction. Such transactions therefore fall entirely outside the scope of IFRS 3, and there are no specific accounting requirements for these under IFRS. The hierarchy of guidance for selecting accounting policies under IFRS means that relevant UK GAAP requirements can be applied. The Treasury has done this and has retained the concept of merger accounting for 'machinery of government changes' in the IFRS-based *FReM*.

59. Monitor has applied the Treasury interpretation in this manual and as such all transfers of services between NHS foundation trusts and other public sector bodies should be treated as 'machinery of government changes' and accounted for using merger accounting principles.

60. Where an NHS foundation trust purchases a business from outside the public sector, then the provisions of IFRS 3 will apply in full.

Discontinued operations – IFRS 5 (part)

61. IFRS 5 contains requirements in respect of discontinued operations, in a manner similar to FRS 3 under UK GAAP, although with more restrictive criteria before entities can recognise operations as discontinuing. As with business combinations, any transfer of services to another part of the public sector would not count as a discontinued operation but as a 'machinery of government change' requiring the application of merger accounting. Thus NHS foundation trusts should only recognise discontinued operations where the activities have actually ceased to be provided or have been sold or transferred to a non-public sector body.

Investment Property - IAS 40

62. Foundation trusts are unlikely to hold investments properties themselves although some may do. Subsidiaries may, however, hold such properties. Where a subsidiary is consolidated into the accounts of the NHS foundation trusts, any investment properties would need to be accounted for in accordance with IAS 40 in the consolidated accounts.

63. The principles of IAS 40 are similar to UK GAAP but there are some important differences. Most significantly, IAS 40 permits entities to measure investment properties either at cost or at fair value. This contrasts with SSAP 19 where entities must measure properties at Open Market Value. Monitor has followed the Treasury's lead and prohibited the use of the cost option in this manual.

64. Where properties are held at fair value, IAS 40 requires any movements to be taken to revenue income or expense. SSAP 19, by contrast, requires movements in open market value to be taken to a revaluation reserve, with only permanent diminutions in value being recognised in income and expenditure. Where NHS foundation trusts or their subsidiaries hold investment properties this could lead to greater volatility in the annual surplus or deficit.

Taxation - IAS 12

65. Subsidiary entities may be subject to corporation tax. While the approach to current tax assets and liabilities under IFRS is similar to UK GAAP, the requirements for deferred tax assets and liabilities is conceptually different from UK GAAP. This means that for those activities which are subject to taxation, there may be a requirement to recognise more deferred tax assets and liabilities than at present, and the amounts involved are likely to be greater.

3. Financial statements - General

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 IFRS, 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 IFRS to NHS foundation trusts and additional disclosures, beyond the requirements of IFRS, 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 IFRS 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 a Statement of Comprehensive Income, a Statement of Financial Position, a Statement of Changes in Taxpayers' Equity and a Statement of Cash Flows. 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 notes included in the FTC form, unless explicitly not required, as agreed with the foundation trust's own auditors. The content of these notes, however, need not follow the format of the FTC forms, as long as the NHS foundation trust complies with IFRS 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 4.43).

Materiality

3.7. IAS 8 notes that accounting policies set out in IFRS need not be applied to immaterial items, but also notes that "it is inappropriate to make, or leave uncorrected, immaterial departures from IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows".

3.8. Similarly, IAS 1 notes that specific disclosure requirements of IFRS need not be satisfied if the information is not material. Both IAS 1 and 8 define materiality as follows:

"Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size of nature of the item, or a combination of both, could be the determining factor.

Accounting Policies

Selection of accounting policies

3.9. In accordance with IAS 8, suitable accounting policies should be selected which provide the most relevant and reliable information in respect of the NHS foundation trust's activities. Example accounting policies are included in Annex 2 to this chapter,

3.10. Where a standard or interpretation applies specifically to a transaction, event or condition, the accounting policy or policies is to be determined by from the relevant pronouncement, including its application guidance.

3.11. In the absence of a specific standard or interpretation, paragraphs 10 to 12 of the Standard describe the approach that management should take to formulating an accounting policy, including the hierarchy of guidance to which it should refer.

Changes in accounting policy

3.12. An entity may change an accounting policy only where it is required by a new standard or interpretation (including any revisions to this *NHS Foundation Trust Annual Reporting Manual* or voluntarily only if it results in the financial statements providing reliable and more relevant information about transactions, events, conditions, or the entity's financial position, financial performance or cashflows.

3.13. Changes in accounting policy arising from the introduction of a new Standard or Interpretation shall be implemented in accordance with the specific transitional provisions, if any, of that Standard or Interpretation. Where no such specific transitional provisions exist, or where an accounting policy is changed voluntarily, the change must be applied retrospectively i.e. through a prior period adjustment.

3.14. IAS 8 requires that prior period adjustments should be effected by restating each element of equity (reserves) at the start of the prior year as if the accounting policy had always applied.

3.15. Any difference between the reported financial results and the adjusted financial results should be reported, as described in the standard. This disclosure should be replicated in the free text sheets of the FTCs.

3.16. Where an NHS foundation trust has to make a prior period adjustment (for any reason other than an adjustment required by the *NHS Foundation Trust Annual Reporting Manual*), they should inform Monitor so that the appropriate information can be collected for consolidation.

Errors in the financial statements

3.17. All material errors must be corrected through a prior period adjustment, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the error. The UK GAAP distinction between fundamental errors and other material errors does not exist under IFRS.

Key sources of judgement and estimation uncertainty

3.18. Under IAS 1, entities must disclose key areas where the underlying estimates in the accounts are subject to uncertainties which create a significant risk of causing a material uncertainty. It will be for each NHS Foundation Trust to decide which uncertainties require disclosure in this way, but examples might include:

- Actuarial assumptions in respect of post-employment benefits.
- Assumptions underlying the likelihood and outcome of material provisions.
- Assumptions regarding the valuation of investment properties.

Future changes in accounting policy

3.19. Where a new standard or interpretation has been issued, but has not yet been implemented, IAS 8 requires disclosure in the accounts of this fact and the known or reasonably estimated impact that its application will have in the period of initial application. In the private sector, ‘issued’ has generally been interpreted as having been issued by the IASB or IFRIC, even if the EU has not yet adopted the standard.

Going concern

3.20. IAS 1 requires management to assess, as part of the accounts preparation process, the NHS foundation trust’s ability to continue as a going concern. The financial statements should be prepared on a going concern basis unless management either intends to apply to the Secretary of State for the dissolution of the NHS foundation trust without the transfer of the services to another entity, or has no realistic alternative but to do so.

3.21. Where management are aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the NHS foundation trust, these should be disclosed.

Comparative Amounts

3.22. Unless otherwise relieved by the provisions of an individual standard, IAS 1 requires the disclosure of comparative information for all primary statements and notes to the accounts. This requirement will result in greater disclosure than under UK GAAP, and includes for example, disclosing the prior year ‘in-year movements’ for each class of Property, Plant and Equipment, and for each class of Provision. NHS foundation trusts should read each standard carefully to ensure that they comply with the requirements for comparative amounts.

Events after the Reporting Period (IAS 10)

3.23. IAS 10 sets out the requirements for addressing events after the end of the reporting period and is identical to existing UK GAAP requirements. As noted further below, Public Dividend Capital is interpreted not to be a financial instrument within the meaning of IAS 32 and 39. PDC dividends do not represent equity distributions and therefore any part of such a dividend paid after the end of the financial year to which it relates should be accrued as a liability in the Statement of Financial Position.

Consolidated accounts

Subsidiaries (IAS 27)

3.24. When determining the need to prepare consolidated accounts, NHS foundation trusts should apply the definitions of a 'subsidiary' and of 'control' as set out in paragraph 4 of IAS 27, together with the guidance in paragraphs 13 to 21 in the standard. The following questions need to be answered when considering whether an entity should be consolidated into the accounts or not:

3.25. When determining whether or not another entity is a subsidiary of the NHS foundation trust, the following considerations are relevant - Does the NHS foundation trust:

- control the majority of the voting rights in the entity, either by itself or by virtue of an agreement with other parties?
- have the power to govern the financial and operating policies of the entity under a statute or agreement?
- have the power to appoint or remove directors holding a majority of the voting rights at meetings of the board?

3.26. If it is determined that an entity is a subsidiary body to the NHS foundation trust then IAS 27 should be followed. In summary:

- Consistent accounting policies should be adopted by both the NHS foundation trust and the subsidiary body. Where this is not possible, then adjustments will need to be made on consolidation to adjust the subsidiary's accounts to reflect the NHS foundation trust's accounting policies, where the differences are material.
- Any transactions between the NHS foundation trust and the subsidiary should be eliminated on consolidation.
- Where the NHS foundation trust and the subsidiary share the same accounting date, or they are within three months of each other, then the financial statements of the subsidiary can be used for the consolidation without adjustment, other than to align accounting policies. Where the accounting dates are more than three months apart, then consolidation will have to be based on the actual transactions of the subsidiary occurring during the relevant financial year of the NHS foundation trust.
- The notes to the NHS foundation trust accounts should disclose the nature and extent of the subsidiary arrangement.
- The consolidated accounts should include:
    - a consolidated Statement of Financial Position, dealing with the NHS foundation trust and its subsidiary;
    - a consolidated Statement of Comprehensive Income;
    - a consolidated Statement of Changes in Taxpayers' Equity;

- a consolidated Statement of Cash Flows; and
- notes to the consolidated accounts.

NHS charitable funds

3.27. Where, for instance, an NHS foundation trust is a corporate trustee of an NHS charitable fund, the NHS foundation trust needs to consider whether that charitable fund represents a subsidiary. This is likely to be the case where the NHS foundation trust both:

- has control over the NHS charitable fund (as determined by the questions listed in paragraph 3.25 above); and
- benefits from the NHS charitable fund. This will be determined by consideration of the NHS charitable fund's objectives. Where those objectives are directly aligned with those of the NHS foundation trust it would be difficult to argue that there is no benefit to the NHS foundation trust.

3.28. HM Treasury has granted dispensation to the application of IAS 27 by NHS foundation trusts in relation to the consolidation of NHS charitable funds for 2009/10 and 2010/11. The disclosure requirements of the standard will, however, apply from 2009/10 should the NHS charitable fund be considered to be a subsidiary of the NHS Foundation Trust.

Individual accounts of subsidiary entities

3.29. NHS foundation trusts with subsidiary companies should note that they will be required to produce separate sets of accounts for their subsidiaries, compliant with the Companies Act.

3.30. It is solely for the directors of such companies, in discussion with the NHS foundation trust, to decide if the individual company accounts should be prepared under UK GAAP, or alternatively to exercise the option under the Companies Act to adopt IFRS for the preparation of their accounts. Although it does not apply to an NHS foundation trust, practitioners may wish to note that section 407 of the Companies Act 2006 requires directors of parent companies to secure that all entities within a group prepare their accounts using the same accounting framework unless in their view there are good reasons for not doing so. There may also be efficiencies in preparing the NHS foundation trust's consolidated accounts if subsidiaries are preparing their own accounts under IFRS and applying accounting policies consistent with those of the NHS foundation trust.

3.31. Where from 2011/12, an NHS charitable fund is consolidated into the accounts of an NHS foundation trust, separate charity accounts will still need to be prepared in accordance with the Charities SORP and submitted to the Charity Commissioners.

Associates (IAS 28)

3.32. An entity is an associate of an NHS foundation trust where the trust has significant influence over it, and yet the entity is not a subsidiary or a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is neither control nor joint control over the policies. It is therefore, sufficient for the NHS foundation trust merely to have the power to exercise significant influence in order for the entity to be an associate, regardless of whether the power is actually used in practice.

3.33. Where an associate exists, the NHS foundation trust must recognise its activities through the equity accounting method, that is:

- The investment is initially recognised at cost in the trust's Statement of Financial Position.
- It is subsequently increased or decreased to reflect the trust's share of profits and losses, with the gain or loss recognised in the trust's Statement of Comprehensive Income
- Any distributions received reduce the carrying amount of the investment.
- Other adjustment may be necessary, e.g. to reflect revaluation gains on property, plant and equipment in the associate's own accounts. These are recognised in the reserves of the trust.

3.34. The use of the equity method for associates is required even where the NHS foundation trust is not already preparing consolidated accounts. Where, however, an associate is classified as 'held for sale' in accordance with IFRS 5, it shall instead be accounted for in accordance with the requirements of that standard.

Joint Ventures (IAS 31)

3.35. Joint ventures are arrangements where two or more parties undertake economic activities under joint control. Joint control, in turn, is a contractually agreed sharing of control such that the strategic operational and financial decisions require the unanimous consent of all parties. Joint ventures comprise jointly controlled operations; jointly controlled assets and jointly controlled entities.

3.36. Jointly controlled operations and jointly controlled assets do not involve the creation of a separate corporate entity. Where an NHS foundation trust is a party to either of these arrangements, it should recognise its share of the assets, liabilities, income and expenses in its own accounts.

3.37. Where an NHS foundation trust is a party to a jointly controlled entity, it must recognise its share in its accounts either through the proportional consolidation method or through the equity method.. Where, however, a jointly controlled entity is classified as 'held for sale' in accordance with IFRS 5, it shall instead be accounted for in accordance with the requirements of that standard.

Mergers and acquisitions

Business combinations involving an NHS foundation trust and another entity within the Whole of Government Accounts (WGA) boundary

3.38. Where an NHS foundation trust combines with another entity within the Whole of Government Accounts boundary (including other NHS foundation trusts and NHS

Trusts) this represents a 'machinery of government change' regardless of the mechanism used to effect the combination e.g. statutory merger or purchase of the business.

3.39. Such transactions fall within the 'Group Reconstruction' provisions of IFRS 3 – as interpreted by the *FReM* - and as a result are then excluded from the scope of that standard. There is no IFRS standard that otherwise deals with accounting for group reconstructions, and as such the *FReM* has followed the IAS 8 hierarchy to the selection of accounting policies and adopted merger accounting principles similar to those in FRS 6.

3.40.

Extract from the *FReM*:

"Merger accounting

4.2.18 The carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. Appropriate adjustments should be made to achieve uniformity of accounting policies in the combining bodies.

4.2.19 The results and cash flows of all the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred, adjusted so as to achieve uniformity of accounting policies. The corresponding figures should be restated by including the results for all the combining bodies (or functions) for the previous period and their Statement of Financial Position for the previous statement of financial position date, adjusted as necessary to achieve uniformity of accounting policies.

4.2.20 For all such adjustments required to achieve uniformity of accounting policies, the double entry will be to the General Fund (or equivalent).

Disclosure

4.2.21 A reporting entity that receives a transfer of functions should disclose in its financial statements that the transfer has taken place (including a brief description of the transferred function), giving the date of the transfer, the name of the transferring body and the effect on the financial statements.

4.2.22 A reporting entity that transfers functions to another reporting entity should provide the same information about the transfer in its financial statements."

3.41. In the NHS foundation trust's financial statements the results of the two entities will be aggregated as if they had always been combined. In summary this means:

- Restating the prior year figures of the NHS foundation trust to include the transactions and balances of the incoming business.

- Making any necessary adjustments to the assets, liabilities and transactions of the incoming business to align them to the accounting policies of the acquiring

NHS foundation trust. This adjustment is made with effect from the beginning of the prior year and any net adjustment is made to the prior year opening reserves.

3.42. Where the business combination involves a purchase which has been funded by cash-backed PDC issued to the acquiring NHS foundation trust by the Secretary of State, any difference between the consideration given and the existing PDC of the acquired NHS Trust (or acquired NHS foundation trust) should be treated as a merger reserve in the accounts of the acquiring NHS foundation trust:

- Where the consideration given exceeds the existing PDC of the acquired NHS Trust (or acquired NHS foundation trust), this will give rise to a negative merger reserve, which should remain on the Statement of Financial Position of the NHS foundation trust following the merger.

- Where the consideration given is less than the acquired NHS Trust's (or acquired NHS foundation trust's) existing PDC, a positive merger reserve will be generated. This positive reserve is similar in substance to a merger reserve under FRS 6, and can be released to the I&E reserve in a manner similar to a revaluation reserve (as per Paragraph 2.11 of ICAEW Tech 01/08 'Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 1985'). Where the total of the merger reserve is equal to or greater than the revaluation reserve of the acquired NHS Trust (or acquired NHS foundation trust) at the date of merger, the amount to be released in this manner when a fixed asset is disposed of will be limited to an amount equal to the revaluation reserve balance attributable to that asset at the date of the merger. Where the merger reserve is less than the revaluation reserve of the acquired NHS Trust (or acquired NHS foundation trust) at the date of merger, the amount to be released will be proportionately lower.

Disclosures

3.43. The following disclosures are required by paragraph 11 of schedule 6 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) where merger accounting is adopted:

- the name of the NHS Trust(s) merging with the NHS foundation trust;

- the fact that merger accounting had been adopted for the transaction;

- the effective date of the merger; and

- the composition and fair value of the consideration given by the NHS foundation trust.

3.44. FRS 6 requires certain further disclosures where merger accounting is adopted, but which are not mandatory for group reconstructions. However, in the interests of accountability, Monitor has decided that these disclosures should nevertheless be made unless, in management's view, the cost of obtaining the information significantly outweighs the benefits of providing it. These disclosures are:

- the aggregate book value of the net assets of each party to the merger at the date of merger;

- an analysis of the principal components of the current year's Statement of Comprehensive Income into:

    - post-merger amounts for the combined NHS foundation trust; and
    - pre-merger amounts for each of the NHS foundation trust and NHS Trust.

(N.B. where the merger occurs on 1 April this disclosure would not be necessary)

- an analysis of the principal components of the previous year's Statement of Comprehensive Income between the amounts attributable to the NHS foundation trust and the NHS Trust.

3.45. The above analyses should show as a minimum, for the Statement of Comprehensive Income:

- Income;
- Expenses;
- Financing Costs;
- Taxation;
- PDC dividends payable;
- the surplus or deficit for the year;
- Exchange gains and losses taken direct to reserves;
- Revaluation surpluses or deficits; and
- Total gains or losses for the period.

3.46. Where the substance of the transaction is effectively one of an acquisition of the NHS Trust by the NHS foundation trust, the disclosures required under acquisition accounting should also be made. In practice, those disclosures above meet most of these requirements with the exception of the disclosure of book values and fair values of the assets and liabilities of the acquired NHS Trust. However, since merger accounting is being applied, a fair value exercise may not have been undertaken. Consequently, the fair value disclosures are not required but disclosure should be made of the existing book values of each class of assets and liabilities of the NHS Trust at the date of the merger.

For an example of accounting for the purchase of the business of an NHS Trust by an NHS foundation trust, including example disclosures, see annex 1 to this chapter.

Transfer of part of the business of an NHS foundation trust to another body within the WGA boundary

3.47. These transactions also meet the definition of a 'machinery of government change' and therefore merger accounting should be used. The assets and liabilities and reserve balances (where applicable e.g. revaluation reserve) should be de-recognised by the NHS foundation trust and comparative disclosures restated to reflect the position as if the activities had never been part of the NHS Foundation Trust's operations.

Purchase of the business of a private sector entity by an NHS foundation trust

3.48. Where an NHS foundation trust purchases a non-NHS entity then the purchase should be accounted for in accordance with IFRS 3. Such a transaction will have to be accounted for as an acquisition by the NHS foundation trust, in which case a fair value exercise will need to be undertaken and any goodwill accounted for in accordance with standard. Under IFRS 1, an NHS foundation trust would not need to re-state any such business combinations it entered into prior to the Date of Transition i.e. 1 April 2008. However, if it wished to do so, it would need to restate all combinations which followed the earliest that it chose to restate.

Annex 1 to Chapter 3: Worked example – merger accounting

An NHS foundation trust acquires the entire business of an NHS Trust on 1 September 2009 in return for cash consideration of £25.0m paid by the NHS foundation trust to the NHS Trust.

Accounting entries for PDC issued and repaid:

<u>Transactions in NHS foundation trust accounts (pre-merger)</u>

1 NHS foundation trust's receipt of PDC funding from SoS:

Dr	Cash		£25m	
Cr		PDC		£25m

2 NHS foundation trust purchases business from NHS Trust

Dr	Net Assets		£25m	
Cr		Cash		£25m

<u>Transactions in NHS Trust accounts</u>

3 NHS Trust sells business to NHS foundation trust

Dr	Cash		£25m	
Cr		Net Assets		£25m

4 NHS Trust repays PDC to SoS

Dr	PDC		£25m	
Cr		Cash		£25m

Following the merger, the accounts are combined as if they always existed. Thus transactions 2 and 3 are consolidated-out.

The resulting Statement of Financial Position at the date of merger is as follows:

	NHS Trust Balances 31/8/09 £000	NHS Foundation Trust Balances 31/8/09 £000	Adjustments for Alignment of Accounting Policies £000	NHS Foundation Trust Balances 1/9/09 £000
NON-CURRENT ASSETS				
Intangible Assets	15	20		35
Property, Plant and Equipment	30,000	60,000		90,000
	30,015	60,020		90,035
CURRENT ASSETS				
Inventories	400	500		900
Trade and other receivables	6,000	5,500		11,500
Cash and cash equivalents	5	15		20
	6,405	6,015		12,420
TOTAL ASSETS	36,420	66,035		102,455
CURRENT LIABILITIES				
Trade and other payables	(7,500)	(3,000)	(10)	(10,510)
Provisions	(500)	(750)		(1,250)
	(8,000)	(3,750)		(11,760)
NON-CURRENT ASSETS PLUS NET NON-CURRENT LIABLITIES	28,420	62,285		90,695
NON-CURRENT LIABILITIES				
Other financial liabilities	0	(2,000)	(390) [1]	(2,390)
Provisions	(500)	(750)		(1,250)
	(500)	(2,750)		(3,640)
ASSETS LESS LIABILITIES	27,920	59,535		87,055
TAXPAYERS' EQUITY				
Public Dividend Capital	25,000	48,000		73,000
Revaluation Reserve	5,000	6,000		11,000
Donated Asset Reserve	200	0		200
Government Grant Reserve	400	-	(400) [1]	-
Other Reserves	0	0		0
Income and Expenditure Reserve	(2,680)	5,535		2,855
TOTAL TAXPAYERS' EQUITY	27,920	59,535		87,055

Opening Balances established on basis of FT Accounting Policies

[1] Alignment of NHS Trust balance to accord with FT accounting policy on government grant funded assets, results in the reclassification of the government grant reserve to current and non-current liabilities (reflecting the amounts to be released to revenue in the within 12 months and beyond 12 months)

NB In the above example the consideration payable by the foundation trust is fixed against the existing PDC of the NHS Trust. If however, the amount payable (and funded by new PDC) is for a different amount, for example the carrying value of the NHS Trust's net assets, then a merger reserve will need to be created to reflect the difference between the 'capital' given and received.

e.g. The net assets and PDC of the acquired Trust are £40m and £35m respectively. The consideration payable is set at £40m, and PDC is issued to the NHS foundation trust by the SoS for this amount. Following the purchase, the £40m cash is repaid by the NHS Trust to the SoS. The PDC of nominal value £35m is therefore repaid to the SoS along with a premium of £5m. This premium is dealt with by creating a negative merger reserve of £5m.

Example Disclosures

- On 1 September 2009 the NHS foundation trust acquired the whole business of Northern Hospital NHS Trust. The transaction involved the purchase of the net assets of Northern Hospital NHS Trust, with a value of £27,920,000. The consideration given by the NHS foundation trust was £25,000,000 in cash, which was financed through additional Public Dividend Capital received from the Secretary of State.

- This transaction represents the transfer of services between public sector bodies which are under common control and therefore is a 'machinery of government change'. This transaction meets the definition of a 'Group Reconstruction' under IFRS 3 'Business Combinations' and therefore falls outside the scope of that standard. Consequently, in accordance with the *NHS Foundation Trust Annual Reporting Manual* the principles of merger accounting have been applied to this transaction, as set out in Financial Reporting Standard 6 'Acquisitions and mergers' issued by the United Kingdom Accounting Standards Board.

2009/10	1 April 2009 to 31 August 2009		1 September 2009 to 31 March 2010	Full year
	NHS Trust	NHS Foundation Trust	Combined Results	Total
	£000	£000	£000	£000
Statement of Comprehensive Income				
Income from activities	10,250	13,800	26,700	50,750
Other income	1,900	2,100	4,600	8,600
Operating expenses	(13,050)	(14,680)	(29,360)	(57,090)
Finance costs	(450)	(500)	(800)	(1,750)
Surplus/(Deficit) for the period	(1,350)	720	1,140	510
Revaluation gains	1,500	2,100	0	3,600
Total Gain/(Loss) for the period	150	2,820	1,140	4,110

2008/09	NHS Trust £000	Foundation Trust £000	Combined £000
Statement of Comprehensive Income			
Income from activities	20,700	26,200	45,900
Other income	2,200	3,000	5,200
Operating expenses	(23,210)	(27,100)	(50,310)
Finance costs	(800)	(750)	(1,500)
Surplus/(Deficit) for the period	(1,110)	1,350	240
Revaluation gains	1,320	1,900	3,220
Total Gain/(Loss) for the period	210	3,250	3,460

Disclosures of the book values of the net assets of each entity immediately prior to the merger can be derived from the earlier table showing the aggregation of the Statements of Financial Position.

Annex 2 to Chapter 3: Example IFRS accounting policies

This annex provides an example 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 **must 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.

Example 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 Annual Reporting Manual* which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the *NHS Foundation Trust Annual Reporting Manual 2009/10* issued by Monitor. The accounting policies contained in that manual follow International Financial Reporting Standards (IFRS) 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.

1 Consolidation

[Subsidiaries

Subsidiary entities are those over which the Trust has the power to exercise control or a dominant influence so as to gain economic or other benefits. The income, expenses, assets, liabilities, equity and reserves of subsidiaries are consolidated in full into the appropriate financial statement lines. The capital and reserves attributable to minority interests are included as a separate item in the Statement of Financial Position.

The amounts consolidated are drawn from the published financial statements of the subsidiaries for the year [except where a subsidiary's financial year end is before 1 January or after 1 July in which case the actual amounts for each month of the Trust's financial year are obtained from the subsidiary and consolidated.]

Where subsidiaries' accounting policies are not aligned with those of the Trust (including where they report under UK GAAP) then amounts are adjusted during consolidation where the differences are material.

Subsidiaries which are classified as held for sale are measured at the lower of their carrying amount and 'fair value less costs to sell'.

[*For 2009/10 and 2010/11*: NHS charitable funds considered to be subsidiaries are excluded from consolidation in accordance with the accounting direction issued by Monitor.]

[Associates

Associate entities are those over which the Trust has the power to exercise a significant influence. Associate entities are recognised in the Trust's financial statement using the equity method. The investment is initially recognised at cost. It is increased or decreased subsequently to reflect the Trust's share of the entity's profit or loss or other gains and losses (e.g. revaluation gains on the entity's property, plant and equipment) following acquisition. It is also reduced when any distribution e.g. share dividends are received by the Trust from the associate.

Associates which are classified as held for sale are measured at the lower of their carrying amount and 'fair value less costs to sell'.]

[Joint ventures

Joint ventures are separate entities over which the Trust has joint control with one or more other parties. The meaning of control is the same as that for subsidiaries [*or* if no subsidiaries insert the wording from above].

Joint ventures are accounted for [by consolidating the Trust's share of the transactions, asset, liabilities, equity and reserves of the entity] [*or:* using the equity method].

Joint ventures which are classified as held for sale are measured at the lower of their carrying amount and 'fair value less costs to sell'.]

[Joint operations

Joint operations are activities which are carried on with one or more other parties but which are not performed through a separate entity. The Trust includes within its financial statements its share of the activities, assets and liabilities.]

2 Income

Income in respect of services provided is recognised when, and to the extent that, performance occurs and is measured at the fair value of the consideration receivable. The main source of income for the trust is contracts with commissioners in respect of healthcare services.

Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

3 Expenditure on Employee Benefits

Short-term Employee Benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. The cost of annual leave entitlement earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry-forward leave into the following period.

Pension costs

NHS Pension Scheme

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. It is not possible for the NHS foundation trust to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme.

Employers pension cost contributions are charged to operating expenses as and when they become due.

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 operating expenses at the time the trust commits itself to the retirement, regardless of the method of payment.

[*Local Government Superannuation Scheme*

Some employees are members of the Local Government Superannuation Scheme which is a defined benefit pension scheme. The scheme assets and liabilities attributable to these employees can be identified and are recognised in the Trust's accounts. The assets are measured at fair value, and the liabilities at the present value of future obligations.

The increase in the liability arising from pensionable service earned during the year is recognised within operating expenses. The expected gain during the year from scheme assets is recognised within finance income. The interest cost during the year arising from the unwinding of the discount on the scheme liabilities is recognised within finance costs. Actuarial gains and losses during the year are recognised in the pensions reserve and reported in the Statement of Comprehensive Income as an item of 'other comprehensive income'.]

4 Expenditure on other goods and services

Expenditure on goods and services is recognised when, and to the extent that they have been received, and is measured at the fair value of those goods and services. Expenditure is recognised in operating expenses except where it results in the creation of a non-current asset such as property, plant and equipment.

5 Property, Plant and Equipment

Recognition

Property, Plant and Equipment is capitalised where:

- it is held for use in delivering services or for administrative purposes;
- it is probable that future economic benefits will flow to, or service potential be provided to, the Trust;
- it is expected to be used for more than one financial year; and
- the cost of the item can be measured reliably.

[Add additional local features e.g. capitalisation threshold, grouping of assets].

Where a large asset, for example a building, includes a number of components with significantly different asset lives e.g. plant and equipment, then these components are treated as separate assets and depreciated over their own useful economic lives.

Measurement

Valuation

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

All assets are measured subsequently at fair value. [Details are needed of the bases of determining the fair value for different asset types and the methods the FT uses to ensure that the carrying values reflect Fair Value.]

Subsequent expenditure

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is added to the asset's carrying value. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised.

Depreciation

Items of Property, Plant and Equipment are depreciated over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated.

Property, Plant and Equipment which has been reclassified as 'Held for Sale' ceases to be depreciated upon the reclassification. Assets in the course of construction and residual interests in off-Statement of Financial Position PFI contract assets are not depreciated until the asset is brought into use or reverts to the trust, respectively.

Revaluation and impairment

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse an impairment previously recognised in operating expenses, in which case they are recognised in operating income.

Decreases in asset values and impairments are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses.

Gains and losses recognised in the revaluation reserve are reported in the Statement of Comprehensive Income as an item of 'other comprehensive income'.

De-recognition

Assets intended for disposal are reclassified as 'Held for Sale' once all of the following criteria are met:

- the asset is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales;
- the sale must be highly probable i.e.:
    - management are committed to a plan to sell the asset;
    - an active programme has begun to find a buyer and complete the sale;
    - the asset is being actively marketed at a reasonable price;
    - the sale is expected to be completed within 12 months of the date of classification as 'Held for Sale'; and
    - the actions needed to complete the plan indicate it is unlikely that the plan will be dropped or significant changes made to it.

Following reclassification, the assets are measured at the lower of their existing carrying amount and their ‘fair value less costs to sell’. Depreciation ceases to be charged and the assets are not revalued, except where the ‘fair value less costs to sell’ falls below the carrying amount. Assets are de-recognised when all material sale contract conditions have been met.

Property, plant and equipment which is to be scrapped or demolished does not qualify for recognition as ‘Held for Sale’ and instead is retained as an operational asset and the asset’s economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

Donated 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 net book value of the donated asset is transferred from the donated asset reserve to the Income and Expenditure Reserve.

Private Finance Initiative (PFI) transactions

PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury’s *FReM*, are accounted for as ‘on-Statement of Financial Position’ by the Trust. The underlying assets are recognised as Property, Plant and Equipment at their fair value. An equivalent financial liability is recognised in accordance with IAS 17.

The annual contract payments are apportioned between the repayment of the liability, a finance cost and the charges for services. The finance cost is calculated using the implicit interest rate for the scheme.

The service charge is recognised in operating expenses and the finance cost is charged to Finance Costs in the Statement of Comprehensive Income.

[Additional policies may be needed e.g. lifecycle replacement is capitalised; for schemes where all or the majority of the operator’s income derives from charges to users rather than from payments by the Trust]

6 Intangible assets

Recognition

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the Trust’s business or which arise from contractual or other legal rights. They are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to, the Trust and where the cost of the asset can be measured reliably.

Internally generated intangible assets

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not capitalised as intangible assets.

Expenditure on research is not capitalised.

Expenditure on development is capitalised only where all of the following can be demonstrated:

- the project is technically feasible to the point of completion and will result in an intangible asset for sale or use;
- the Trust intends to complete the asset and sell or use it;
- the Trust has the ability to sell or use the asset;
- how the intangible asset will generate probable future economic or service delivery benefits e.g. the presence of a market for it or its output, or where it is to be used for internal use, the usefulness of the asset;
- adequate financial, technical and other resources are available to the Trust to complete the development and sell or use the asset; and
- the Trust can measure reliably the expenses attributable to the asset during development.

Software

Software which is integral to the operation of hardware e.g. an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware e.g. application software, is capitalised as an intangible asset.

Measurement

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management.

Subsequently intangible assets are measured at fair value. Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse an impairment previously recognised in operating expenses, in which case they are recognised in operating income. Decreases in asset values and impairments are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses. Gains and losses recognised in the revaluation reserve are reported in the Statement of Comprehensive Income as an item of ‘other comprehensive income’.

Intangible assets held for sale are measured at the lower of their carrying amount or ‘fair value less costs to sell’.

Amortisation

Intangible assets are amortised over their expected useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.

7 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 as are grants from the Big Lottery Fund. Where the Government grant is used to fund revenue expenditure it is taken to the Statement of Comprehensive Income to match that expenditure. Where the grant is used to fund capital expenditure the grant is held as deferred income and released to operating income over the life of the asset in a manner consistent with the depreciation charge for that asset.

8 Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is measured using [delete as applicable:] the First In, First Out (FIFO) method [or] the weighted average cost method.

9 Financial instruments and financial liabilities

Recognition

Financial assets and financial liabilities which arise from contracts for the purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with the Trust's normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs i.e. when receipt or delivery of the goods or services is made.

[Financial assets or financial liabilities in respect of assets acquired or disposed of through finance leases are recognised and measured in accordance with the accounting policy for leases described above/below.]

[Regular way purchases or sales are recognised and de-recognised, as applicable, using the Trade/Settlement - *delete as appropriate* - date].

[All other financial assets and financial liabilities are recognised when the Trust becomes a party to the contractual provisions of the instrument.]

De-recognition

All financial assets are de-recognised when the rights to receive cashflows from the assets have expired or the Trust has transferred substantially all of the risks and rewards of ownership.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

Classification and Measurement

Financial assets are categorised as ['Fair Value through Income and Expenditure',] Loans and receivables [or 'Available-for-sale financial assets'].

[Financial liabilities are classified as 'Fair value through Income and Expenditure' or as 'Other Financial liabilities'.]

Financial assets and financial liabilities at 'Fair Value through Income and Expenditure'

Financial assets and financial liabilities at 'fair value through income and expenditure' are financial assets or financial liabilities held for trading. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. [Derivatives which are embedded in other contracts but which are not 'closely-related' to those contracts are separated-out from those contracts and measured in this category. Assets and liabilities in this category are classified as current assets and current liabilities.

These financial assets and financial liabilities are recognised initially at fair value, with transaction costs expensed in the income and expenditure account. Subsequent movements in the fair value are recognised as gains or losses in the Statement of Comprehensive Income.]

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments with are not quoted in an active market. They are included in current assets.

The Trust's loans and receivables comprise: [current investments, cash and cash equivalents, NHS debtors, accrued income and 'other debtors'].

Loans and receivables are recognised initially at fair value, net of transactions costs, and are measured subsequently at amortised cost, using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Interest on loans and receivables is calculated using the effective interest method and credited to the Statement of Comprehensive Income.

[Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are either designated in this category or not classified in any of the other categories. They are included in long-term assets unless the Trust intends to dispose of them within 12 months of the Statement of Financial Position date.

Available-for-sale financial assets are recognised initially at fair value, including transaction costs, and measured subsequently at fair value, with gains or losses recognised in reserves and reported in the Statement of Comprehensive Income as an item of 'other comprehensive income'. When items classified as 'available-for-sale' are sold or impaired, the accumulated fair value adjustments recognised are transferred from reserves and recognised in 'Finance Costs' in the Statement of Comprehensive Income.]

[Other] financial liabilities

All [other] financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability.

They are included in current liabilities except for amounts payable more than 12 months after the Statement of Financial Position date, which are classified as long-term liabilities.

Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to Finance Costs. Interest on financial liabilities taken out to finance property, plant and equipment or intangible assets is not capitalised as part of the cost of those assets.

[Determination of fair value

For financial assets and financial liabilities carried at fair value, the carrying amounts are determined from [quoted market prices/independent appraisals/discounted cash flow analysis/other (describe)].]

Impairment of financial assets

At the Statement of Financial Position date, the Trust assesses whether any financial assets, other than those held at 'fair value through income and expenditure' are impaired. Financial assets are impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cashflows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Statement of Comprehensive Income and the carrying amount of the asset is reduced - *delete as appropriate:* [directly] or [through the use of an allowance account/bad debt provision]

[Where an allowance account/bad debt provision is used, the accounting policies should include the criteria for determining when an asset's carrying value is written down directly and when the allowance account is used, and the criteria for writing off amounts charged to the allowance account against the carrying amount of the financial asset].

10 Leases

Finance 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 Property, Plant and Equipment and a corresponding liability is recorded. The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease. The implicit interest rate is that which produces a constant periodic rate of interest on the outstanding liability.

The asset and liability are recognised at the inception of the lease, and are de-recognised when the liability is discharged, cancelled or expires. The annual rental is split between the repayment of the liability and a finance cost. The annual finance cost is calculated by applying the implicit interest rate to the outstanding liability and is charged to Finance Costs in the Statement of Comprehensive Income.

Operating leases

Other leases are regarded as operating leases and the rentals are charged to operating expenses on a straight-line basis over the term of the lease. Operating lease incentives received are added to the lease rentals and charged to operating expenses over the life of the lease.

Leases of land and buildings

Where a lease is for land and buildings, the land component is separated from the building component and the classification for each is assessed separately. Leased land is treated as an operating lease.

11 Provisions

The NHS foundation trust provides for legal or constructive obligations that are of uncertain timing or amount at the Statement of Financial Position 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.

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 *XX*.

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.

12 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 *XX* where an inflow of economic benefits is probable.

- Contingent liabilities are not recognised, but are disclosed in note *XX*, 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.

13 Public dividend capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS trust. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

A charge, reflecting the cost of capital utilised by the NHS foundation trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for (i) donated assets, (ii) net cash balances held with the Government Banking Services and (iii) any PDC dividend balance receivable or payable. In accordance with the requirements laid down by the Department of Health (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the 'pre-audit' version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the annual accounts.

14 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.

15 Corporation Tax

[This note should disclose:
- the basis of the charge for taxation;
- the policy adopted for providing for deferred taxation; and
- the policy adopted regarding discounting.

If the NHS foundation trust has determined that it is has no corporation tax liability then the basis for that decision should be disclosed.]

16 Foreign exchange

The functional and presentational currencies of the Trust are sterling.

A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

Where the Trust has assets or liabilities denominated in a foreign currency at the Statement of Financial Position date:

- monetary items (other than financial instruments measured at 'fair value through income and expenditure') are translated at the spot exchange rate on 31 March;
- non-monetary assets and liabilities measured at historical cost are translated using the spot exchange rate at the date of the transaction; and
- non-monetary assets and liabilities measured at fair value are translated using the spot exchange rate at the date the fair value was determined.

Exchange gains or losses on monetary items (arising on settlement of the transaction or on re-translation at the Statement of Financial Position date) are recognised in income or expense in the period in which they arise.

Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

17 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 HM Treasury's *Financial Reporting Manual*.

4. Statement of Comprehensive Income and notes

4.1. The revised version of IAS 1 ‘Presentation of Financial Statements’ issued in September 2007 and applicable from 2009/10 requires the preparation of a Statement of Comprehensive Income. Essentially, this combines into one statement the Income and Expenditure Account and Statement of Total Recognised Gains and Losses previously prepared under UK GAAP. In the interest of consistency across the NHS Foundation Trust sector, Monitor has withdrawn an option in IAS 1 to present this information as two separate statements.

4.2. The standard does not prescribe the structure of the statement, but simply sets out the items which must be disclosed on the face of the statement.

4.3. Generally, income and expenditure should be recorded gross and not netted off. The exception to this is where a member of staff is employed jointly by the NHS foundation trust and another NHS body then only the element of the salary relating to the NHS foundation trust should be recorded as expenditure. However, staff seconded to another organisation but still employed by the NHS foundation trust should be accounted for on a gross basis so that their costs are included in staff costs and the re-charge to the other organisation is shown as income. This is because the seconded staff member is still an employee of the NHS foundation trust, whereas the jointly employed member of staff works on a part-time basis for the NHS foundation trust and the recharge arrangement is simply an administrative arrangement.

4.4. Where an NHS foundation trust works with another NHS body on an agency basis, for example, processing invoices or managing a lease car scheme, then the transactions it processes on behalf of the other body do not need to be reflected in the NHS foundation trust accounts. Where the NHS foundation trust is paid for providing the service then that payment should be reflected in its accounts.

Income

4.5. NHS foundation trusts are required to follow IAS 18 in relation to revenue recognition.

Income from activities

4.6. Income should be classified as income from activities when it is earned under contracts with NHS bodies and others for the provision of patient-related 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 is it classified in the accounts of the subsidiary.

4.7. Where “other income” is material additional disclosure should be made in the accounts as to its source. Even where “other income” is not material for the foundation trust, the FTC may require additional analysis, as it may include items that are material for the sector as a whole.

Partially completed spells

4.8. NHS foundation trusts enter into contracts for services based on a model contract. The suggested contract is three years in length but actual contracts could be longer or shorter. The key elements of the model contract are that:

- the NHS foundation trust has to provide the service or services needed by each patient who is referred, or presents, to the provider for healthcare or treatment in accordance with the contract;
- the NHS foundation trust can only refuse to treat patients in limited circumstances based on clinical needs or patient behaviour;
- even when treatment is refused the NHS foundation trust will be paid for activity undertaken up to the point that the treatment is refused and the patient discharged unless and to the extent that such an activity requires rectification by another provider; and
- the commissioner will pay the NHS foundation trust for activity delivered based on prices set out in the contract.

4.9. Therefore, if the NHS foundation trust can demonstrate that it is certain to receive the income for a treatment or spell once the patient is admitted and treatment begins then the income for that treatment or spell can start to be recognised at the time of admission and treatment starting. Costs of treatment are then expensed as incurred. Income relating to those spells which are partially completed at the financial year end should be apportioned across the financial years on a pro rata basis. This basis may be the expected or actual length of stay or may be based on the costs incurred over the length of the treatment. It is for the NHS foundation trust to establish a suitable pro rata basis, and where material, disclose this in the accounting policy note.

4.10. NHS foundation trusts should examine the terms of the contracts that they have entered into to determine exactly how revenue should be recognised in accordance with IAS 18.

Intra-NHS agreement of balances

4.11. NHS foundation trusts are encouraged to participate in the NHS-wide agreement of balances exercise but participation is not mandatory. However NHS foundation trusts are required to give sufficient audit evidence for the carrying value of all balances, through either 3rd party confirmation or internal analysis.

4.12. The FTCs do not include a line for disagreements between NHS bodies as Monitor would prefer the amounts shown as balances with PCTs and income and expenditure relating to PCTs to be the amounts that the NHS foundation trust considers to be the true amount relating to that PCT.

4.13. Where the NHS foundation trust knows that this is a different amount to that agreed with the PCT or that which the PCT will be showing in its accounts, any difference must be supported by sufficient evidence which is acceptable to the NHS foundation trust’s auditors. Part of the difference may be due to different accounting treatment in relation to recharges (see paragraph 4.1). Where the NHS foundation trust is aware that the other body has included a different amount from them in their summarisation schedules this fact should be stated in the freetext FTC along with the reason for the difference. This may avoid NHS foundation trusts being asked additional questions during the consolidation process.

4.14. A similar logic is applicable to income and expenditure with other NHS bodies, NHS foundation trusts are encouraged to participate in the exercise but it is not mandatory, NHS foundation trusts will need to give sufficient audit evidence to justify the total level of income and expenditure.

Government Grants (IAS 20)

4.15. IAS 20 states that "Government grants must be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests."

4.16. Therefore where NHS foundation trusts receive Government grants to fund revenue expenditure, they should record the grant as revenue income, unless some or all of the costs are to be incurred in a later financial year in which case the relevant proportion of Government grant should be carried forward as a deferred income.

4.17. Where a grant is received to fund the purchase of a capital asset, the grant should be placed in a Government grant account and released to revenue income on a basis consistent with the depreciation of the capital asset. The balance in the Government grant account will need to be analysed between current and non-current amounts and presented accordingly in the Statement of Financial Position. The option in the standard to deduct the grant from the carrying value of the capital asset is withdrawn.

4.18. Grants and similar types of receipts from any entity within the boundary of Whole of Government Accounts should be accounted for as a Government grant.

4.19. Where the NHS foundation trust is a member of the EU Greenhouse Gas Emission Allowance Trading scheme and it has been issued allowances at less than fair value then the difference between the amount paid and the fair value should be disclosed as a Government grant. The grant should be released to operating income as the allowances are used.

Donations

4.20. There is no Standard or Interpretation under IFRS that addresses the accounting for donations received, nor are there any relevant principles in the IASB's Framework. In such situations, the approach to selecting accounting policies under IAS 8 permits reference to pronouncements from other standard setters with a similar conceptual framework. Having taken into account the options, Monitor has decided to adopt the approach set out in the *FReM*. That approach is consistent with the rest of central government and the NHS, and also with the existing approach adopted by NHS foundation trusts under UK GAAP.

4.21. Any donations received by an NHS foundation trust from a body or an individual which is not a government body and which does not result in the donating party having any financial interest in the NHS foundation trust should be recognised as follows:

- donations received to support operating expenditure by the foundation trust are recognised in operating income when, and to the extent to which the conditions attached to them e.g. incurring the expenditure have been met; and
- donations received to purchase items of property, plant or equipment or

intangible assets should be held in a donated asset reserve and released to operating income over the life of the fixed asset in order to neutralise the costs of holding that asset.

4.22. 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).

4.23. 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, including the Big Lottery Fund (and its predecessor body);

- subsequent capitalised expenditure on a donated asset unless funded by donation; 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.

Profits and losses on disposal of non-current assets

4.24. Where non-current assets are disposed of, but the activities which they supported are continuing, then any profit or loss on disposal should be recognised in operating income or operating expenses as appropriate. Where the asset has been disposed of as part of the disposal or discontinuance of an activity, then any profit or loss on disposal should be shown on the face of the Statement of Comprehensive Income within the amount for ‘Surplus/(deficit) of discontinued operations and the gain/(loss) on disposal of discontinued operations’.

Operating expenses

Analysis of Operating Expenses

4.25. IAS 1 requires an analysis of operating expenses to be disclosed on either the face of the Statement of Comprehensive Income or in a note to the accounts. This analysis should reflect the nature of the expenditure e.g. employment costs, supplies and services, unless management considers that an analysis by function is more relevant, and in which case an analysis by nature should be disclosed in a note to the accounts.

4.26. In either case, material types of expenditure should be shown separately in the analysis. In addition, where the analysis reflects the nature of the expenditure, the employee benefits expense (see below) should be disclosed. Where the functional approach is chosen, then IAS 1 and IAS 19 require the employee benefits expense to be shown as a note to the accounts.

4.27. Consideration should also be given to the analysis required for the FTC. In some cases, it will be necessary to report non-material items in the FTC as they may be material in aggregate for the foundation trust sector. For example, further analysis of ‘other operating expenses’ will be required.

Employee benefits expense

4.28. IAS 19 sets out the requirements for accounting for short-term employee benefits, post-employment benefits and termination benefits. The ‘Employee benefits expense’ includes all three of these costs.

Retirement benefits

4.29. NHS foundation trusts should account for retirement benefits in accordance with IAS 19. The NHS Pension Scheme meets the definition of a defined benefit plan that shares risks between various entities under common control. NHS foundation trusts should therefore recognise an expense equal to their employer contribution to the scheme during the year.

4.30. Where NHS foundation trusts are members of other defined benefit schemes, they will need to assess whether these schemes should be accounted for as defined benefit schemes or as defined contribution schemes.

4.31. Where schemes are accounted for as defined benefit schemes, NHS foundation trusts should recognise actuarial gains and losses directly in the I&E reserve and report the gain or loss as an item of ‘other comprehensive income in the Statement of Comprehensive Income. Where defined benefit schemes have a minimum funding requirement, this may affect the amount of any net asset which the NHS foundation trust can recognise when the scheme is in surplus. IFRIC 14 provides guidance on any adjustments required to the asset in these circumstances.

Termination Benefits

4.32. Termination benefits include, for example, redundancy costs, termination gratuities and pension enhancements on termination. Such costs fall within the scope of IAS 19 rather than IAS 37.

PDC dividends payable

4.33. The disclosure of PDC dividends payable on the face of the Statement of Comprehensive Income is the total of PDC dividends payable by the NHS foundation trust in respect of the financial year.

4.34. Legislation requires that NHS foundation trusts pay a PDC dividend on the same basis as NHS trusts. A charge of 3.5% is therefore payable based on actual average relevant net assets during the financial year. Any difference between the amount of PDC dividend paid, and payable, for the financial year should be recorded as a debtor or creditor in the Statement of Financial Position.

4.35. Legislation requires that NHS foundation trusts pay a PDC dividend on the same basis as NHS trusts. A charge of 3.5% is therefore payable based on actual average relevant net assets during the financial year as determined in the draft/unaudited accounts submitted to Monitor. Any difference between the amount of PDC dividend paid, and payable, for the financial year should be recorded as a debtor or creditor in the Statement of Financial Position. Once determined for the draft accounts, the PDC dividend payable is not recalculated to take account of any changes in net assets that may be recognised as a result of the audit of the accounts.

4.36. The calculation of relevant net assets is as follows:

Total public dividend capital and reserves	X
Less: Donated asset reserve	(X)
Less: Net Cash balances in Government Banking Service accounts	(X)
Less/Add: PDC Dividend receivable/payable	(X)
	X

Notes to the Statement of Comprehensive Income

Operating Segments (IFRS 8)

4.37. IFRS 8 requires disclosures of the results of significant operating segments*.*

4.38. The standard uses revenues as the principal measure of the relative size of individual activities. However, NHS foundation trusts may not allocate income to individual activities for the purposes of internal performance reporting, choosing instead to report expenditure by activity and reporting income only for the entity as a whole.

4.39. Where income is not allocated consistently to individual activities for internal reporting to the CODM, NHS foundation trusts should determine which operating segments are reportable by reference to the operating expenses of the segment and the total operating expenses of the trust.

Disclosures

4.40. This manual early-adopts for 2009/10 the amendment to IFRS 8 set out in the IASB's 'Improvements to IFRS' issued in April 2009. Consequently, NHS foundation trusts need only disclose total assets attributable to each operating segment where this information is regularly provided to the CODM.

4.41. The standard provides for the information on income, expenses, surplus/deficit, assets and liabilities to be disclosed on the same basis as that used for internal reporting to the CODM. This means that if they are not recognised and measured on an IFRS basis for internal reporting, then they do not need to be restated to IFRS prior to disclosure. However, reconciliations must be provided between the aggregate amounts disclosed for reportable segments and the totals included in the financial statements. In practice, the key adjustments are likely to be the removal of internal income and expenses, any necessary restatement to an IFRS basis and the inclusion of amounts in respect of the activities of operating segments which did not meet the criteria for a reportable segment.

Discontinued operations

4.42. NHS foundation trusts should review their activities against IFRS 5 to determine whether any activities meet the definition of a discontinued operation, and if so, to reclassify it as such and measure and disclose it accordance with that standard.

4.43. Following the requirements of the *FReM*, activities that are transferred to other bodies within the boundary of Whole of Government Accounts are ‘machinery of government changes’. They should therefore be treated as continuing operations, and in the financial year of disposal should be removed from the accounts in accordance with merger accounting principles.

4.44. Discontinued operations can only occur therefore, in respect of activities that genuinely cease without transferring to another entity, or which transfer to an entity outside the boundary of Whole of Government Accounts, such as the private or voluntary sectors.

Analysis of Income

4.45. In accordance with the requirements of paragraph 5.4.39 of the *FReM*, NHS foundation trusts should provide in a note to the accounts an analysis of income, together with commentary where appropriate, that enables users of the accounts to understand the nature of the NHS foundation trust’s income.

Income from activities arising from mandatory and non-mandatory services

4.46. Within this analysis of income, NHS foundation trusts should also disclose the level of income from activities that has arisen from mandatory and non-mandatory services (as set out in the NHS foundation trust's Terms of Authorisation). This analysis should sum to the total income from activities set out on the face of the Statement of Comprehensive Income.

Private patient income

4.47. Section 44 of the 2006 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.

4.48. The following table should be included in the notes to the Statement of Comprehensive Income:

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

4.49. NHS foundation trusts should also include within this note narrative explaining that section 44 of the 2006 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.

4.50. Private patient income is defined as:

- patient related income arising from charges imposed by the NHS foundation trust in respect of goods and services provided by the NHS foundation trust directly to patients other than for the purposes of the National Health Service;

- the relevant proportion of any income from subsidiaries (as defined by IAS 27) joint ventures or associates (as defined by IAS 31 and 28) arising from charges in respect of goods and services provided directly to patients other than for the purposes of the National Health Service. The relevant proportion is in relation to the interest held over the period in which the income arose. Income from Joint Arrangements that are Not Entities (JANEs) also falls within the scope of the definition of private patient income.

4.51. For the avoidance of doubt, income receivable in relation to NHS patients but not receivable from NHS bodies (e.g. NHS Injury Scheme income), income from the provision of care services to other public bodies (e.g. for the Ministry of Defence) and income for EEA, other overseas patients treated under reciprocal healthcare agreements and treatment given in an accident and emergency department are not private patient income. Further guidance on overseas patients is set out in the National Health Service (Charges to Overseas Visitors) Regulations 1989, as amended, located on the Department of Health's website.

4.52. 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;
- other income for patient care services (including NHS Injury Scheme income, income from the Ministry of Defence, local authorities, the prison service, etc.);
- any amounts received from SHAs for patient care services, including income for overseas patients treated under reciprocal agreements;
- the relevant proportion of income received by subsidiaries, JANEs, joint ventures and associates arising from the provision of goods and services to NHS patients; and
- non-NHS private patient income as defined above.

Directors' remuneration and other benefits

4.53. In addition to the Remuneration Report, the Companies Act 2006 requires disclosure, in a note to the accounts, of the aggregate of remuneration and other benefits receivable by directors during the financial year. This information is required even where entities prepare a Remuneration Report, although in such cases the disclosure requirements in the accounts are correspondingly fewer.

4.54. The requirements for disclosing directors' remuneration are set out in section 412 of the Act and in Regulation 8 and Schedule 5 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). In summary, the disclosures comprise the aggregate amounts of each of the following:

- Directors' remuneration;
- Gains made by directors on the exercise of share options (not likely to apply but could theoretically apply in respect of any subsidiary companies of an NHS Foundation Trust);
- Money paid and the net value of assets (other than money and share options) receivable by directors, under long term incentive schemes (again not likely to be relevant to an NHS Foundation Trust);
- Employer contributions to a pension scheme in respect of directors; and
- The total number of directors to whom benefits are accruing under:
    - Money purchase schemes
    - Defined benefit schemes

4.55. The requirements for disclosing directors' other benefits are set out in section 413 of the Act, and comprise:

- Advances and credits granted by the NHS Foundation Trust (or any subsidiary undertaking) to any of directors of the Trust:
    - o the amount of the advance;
    - o an indication of the interest rate;
    - o the main conditions; and
    - o any amounts repaid.

and

- Guarantees of any kind entered into on behalf of the directors of the NHS Foundation Trust by the Trust (or any subsidiary undertaking):
    - o the main terms of the guarantee;
    - o the amount of the maximum liability that maybe incurred by guarantor entity; and
    - o any amount paid and any liability incurred by the guarantor for the purpose of fulfilling the guarantee.
- The aggregate of:
    - o all advances
    - o all repayments of advances;
    - o the maximum liabilities under guarantees; and
    - o amounts paid under such guarantees.

4.56. These disclosures apply to any advance or guarantee existing at any time during the financial year, regardless of when it was entered into, whether the individual concerned was a director at the time it was entered into and, if by a subsidiary, regardless of whether the entity was a subsidiary at the time it was entered into.

Staff costs

4.57. This disclosure is required by section 411 of the Companies Act 2006. Staff costs are interpreted by the *FReM* to include:

- all persons with a permanent (UK) contract of employment with the NHS foundation trust (this will include executive directors but exclude non-executive directors); and
- other staff engaged on the objectives of the NHS foundation trust (for example, short-term contract staff, agency/temporary staff and inward secondments where the NHS foundation trust is paying the whole or majority of their costs). In practice, this includes:
    - o 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.

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

- salaries and wages;
- social security costs;
- employer contribution to NHS Pensions; and
- other pension costs.

4.59. The note should also include an analysis of average staff numbers. These should be disclosed in the categories defined in DSCN 18/2001 (which can be found on the DH website http://www.connectingforhealth.nhs.uk/dscn/dscn2001/).

4.60. The staff costs note should be capable of being reconciled to the total of employee benefit expenses within operating expenses.

Retirement Benefits (IAS 19)

4.61. IAS 19 requires the following disclosures in relation to defined benefit schemes which are accounted for as a defined contribution scheme, such as the NHS pension scheme:

- the fact that the scheme is a defined benefit scheme;
- the reason why sufficient information is not available to enable the employer to account for the scheme as a defined benefit scheme;
- any available information about the existence of the surplus or deficit in the scheme;
- the basis used to determine that surplus or deficit; and
- the implications of that surplus or deficit for the employer.

4.62. NHS foundation trusts should be aware of the following information in relation to the NHS pension scheme when they are drafting the above disclosures :

- the NHS pension scheme is subject to a full valuation every four years by the Government Actuary. The latest published valuation relates to the period 1 April 1999 to 31 March 2004 which was published in December 2007 and is available on the NHS Pensions Agency website here.
- the notional deficit of the scheme was £3.3 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1999 to 31 March 2004. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis.

- employer contribution rates are reviewed every four years following the scheme valuation, on advice from the actuary. At the last valuation it was recommended that employer contribution rates should continue at 14% of pensionable pay. From 1 April 2008, employees' pay contributions will be on a tiered scale from 5% to 8.5% of their pensionable pay.

Profits and losses on disposal of fixed assets

4.63. These should be analysed in a note to the Statement of Comprehensive Income between profits or losses arising from the disposal of protected and assets which are not protected.

Annex 1 to Chapter 4: Example Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 March 20CC

		20BB/CC		20AA/BB
		£000		£000
Operating Income		X		Y
Operating Expenses		(X)		(Y)
Operating Surplus/(Deficit)		X/(X)		Y/(Y)
Finance costs				
Finance income	X		Y	
Finance expense - financial liabilities	(X)		(Y)	
Finance expense - unwinding of discount on provisions	(X)		(Y)	
PDC Dividends payable	(X)		(Y)	
Net finance costs		(X)		(Y)
Share of Profit/(Loss) of Associates/Joint Ventures accounted for using the equity method		*X/(X)*		*Y/(Y)*
Corporation tax expense		*(X)*		*(Y)*
Surplus/(Deficit) from continuing operations		*X/(X)*		*Y/(Y)*
Surplus/(deficit) of discontinued operations and the gain/(loss) on disposal of discontinued operations		*X/(X)*		*Y/(Y)*
SURPLUS/(DEFICIT) FOR THE YEAR		X/(X)		Y/(Y)
Other comprehensive income:				
Share of comprehensive income from associates and joint ventures		*X/(X)*		*Y/(Y)*
Revaluation gains/(losses) on property, plant and equipment		X/(X)		Y/(Y)
Revaluation gains/(losses) on intangible assets		*X/(X)*		*Y/(Y)*
Revaluation gains/(losses) and impairment losses arising from classifying non current assets as Assets Held for Sale		*X/(X)*		*Y/(Y)*
Fair Value gains/(losses) on Available-for-sale financial assets		*X/(X)*		*Y/(Y)*
Recycling gains/(losses) on Available-for-sale financial investments		*X/(X)*		*Y/(Y)*
Increase in the donated asset reserve due to receipt of donated assets		*X*		*Y*

Reduction in the donated asset reserve in respect of depreciation, impairment, and/or disposal of on donated assets	*(X)*	*(Y)*
Additions/(reductions) in "Other reserves"	*X/(X)*	*Y/(Y)*
Other recognised gains and losses	*X/(X)*	*Y/(Y)*
Actuarial gains/(losses) on defined benefit pension schemes	*X/(X)*	*Y/(Y)*
TOTAL COMPREHENSIVE INCOME AND EXPENSE FOR THE YEAR	X/(X)	Y/(Y)

5. Statement of Financial Position and notes

Format of the Statement of Financial Position

5.1. IAS 1 requires that the Statement of Financial Position is presented so as to present separately non-current assets, current assets, current liabilities and non-current liabilities. The standard permits the use of a liquidity presentation where this is more appropriate, but this option is withdrawn for NHS foundation trusts. NHS foundation trusts have the freedom to present the Statement of Financial Position as they wish, provided only that they comply with the IAS 1 requirements as interpreted by this manual, and provided that they have the information required to complete the FTCs. An illustrative Statement of Financial Position is included at Annex 1 to this chapter, but this is not mandatory.

5.2. NHS foundation trusts should ensure that they classify correctly assets and liabilities between current and non-current, in accordance with paragraphs 57 to 67 of IAS 1.

Property, Plant and Equipment (IAS 16)

Valuation and valuation basis

5.3. In accordance with IAS 16, all property, plant and equipment must initially be measured at cost which, the Standard notes, should also reflect its fair value provided that the transactions are at arm's length and no impermissible costs have been capitalised.

Property assets

5.4. For subsequent measurement of property assets, NHS foundation trusts must follow the Revaluation Model in IAS 16. The Cost Approach for subsequent measurement in the Standard is not permitted. For an asset that is newly-acquired or constructed, a formal revaluation should only be necessary if there is an indication that the initial cost is significantly different to its fair value. Otherwise, the asset should only be re-valued on the next occasion when all assets of that class are re-valued.

5.5. Where, due to the specialised nature of an asset, the fair value is to be determined using a Depreciated Replacement Cost, NHS foundation trusts should have regard to the interpretations in paragraph 6.2.7 of the *FReM* including the Guidance on Asset Valuation referred to therein and available on the *FReM*'s dedicated website. In accordance with the adaptation of IAS 16 in paragraph 6.2.5 of the *FReM*, for non-specialised property assets in operational use, 'fair value' should be interpreted as market value for existing use.

Non-property assets

5.6. In accordance with paragraph 6.2.7 (i) of the *FReM*, NHS foundation trusts may adopt a depreciated historical cost basis as a proxy for fair value in respect of assets which have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset. Where such a basis is not used, assets should be carried at fair value and NHS foundation trusts should value them using the most appropriate valuation methodology available,

5.7. There is no pre-determined frequency with which assets must be re-valued. Instead, the standard requires that asset values should be kept up to date and that the frequency of revaluation will need to reflect the volatility of asset values. Where assets are subject to significant volatility, then annual revaluations may be required. Conversely, where changes in asset values are insignificant then a revaluation may be necessary only every 3 or 5 years. In Monitor's view, property assets are likely to require revaluation at least every 5 years.

5.8. Where an individual asset is re-valued then all of the assets in that class must be re-valued at the same time. As a minimum, NHS foundation trusts should establish, and report on, the following classes of PPE, as required by the *FReM*:

- land and buildings (excluding dwellings);
- dwellings;
- transport equipment;
- plant and machinery;
- information technology;
- furniture and fittings;
- antiques and works of art; and
- payments on account and assets under construction.

5.9. Where a revaluation results in an increase in an asset's value, this increase should be credited to the revaluation reserve unless it reverses an impairment previously recognised in operating expenses, in which case it should be credited initially to operating income and thereafter to the revaluation reserve.

5.10. Where a revaluation results in a reduction in an asset's value, this reduction should be charged initially to the revaluation reserve to the extent that there is an available balance in respect of the asset, and thereafter it should be charged to operating expenses. Negative revaluation reserve balances for individual assets are not permitted.

Capitalisation threshold of fixed assets - de minimis limits

5.11. The *FReM* leaves discretion for individual Government departments to set their own capitalisation thresholds, having regard to practicality, flexibility, consistency and asset grouping considerations. NHS bodies generally adopt a capitalisation threshold of £5,000, and it is recommended that NHS foundation trusts use this threshold. However, if NHS foundation trusts wish to adopt a lower de minimis threshold then that would be acceptable. Where a change in the de minimis is made then the NHS foundation trust must consider whether a prior period adjustment is required. The £5,000 figure includes VAT where this is not recoverable.

Grouped assets

5.12. "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.

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

IT assets

5.14. 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 5.12 apply, will be capitalised.

Initial equipping and setting-up costs of new building

5.15. 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.

Depreciation

5.16. IAS 16 requires that individually significant components should be depreciated separately over their respective useful economic lives. The depreciable amount of the asset is the fair value less any residual value. The useful life and residual value should be reviewed at least at each financial year end.

5.17. The depreciation approach selected should be the one that most closely reflects the expected pattern of consumption of economic benefits of the asset. For the types of assets held by NHS foundation trusts, this will typically be a straight-line approach.

5.18. When assets are re-valued the carrying amount of the asset should be re-stated at its re-valued amount. NHS foundation trusts should follow the approach set out in paragraph 35(b) of IAS 16 and eliminate any accumulated depreciation against the carrying value of the asset. This is illustrated in the table below:

Details of the fixed asset before revaluation:

	£
Fixed asset at cost/valuation	1,000
Accumulated depreciation	(400)
Net book amount	600

The asset is re-valued to £1,500

Details of the fixed asset after revaluation

	£
Fixed asset at cost/valuation	1,000
Gain on revaluation	500
Fixed asset at re-valued amount	1,500
Accumulated depreciation	400
Gain on revaluation	(400)
Depreciation after revaluation	Nil

Intangible Assets (IAS 38)

5.19. Intangible assets can only be recognised if it is probable that future economic benefits will flow to, or service potential be provided to, the NHS foundation trust and the cost of the asset can be measured reliably.

5.20. Intangible assets are initially measured at cost. NHS foundation trusts must measure them subsequently at a valuation – **the cost model in IAS 38 is not permitted**.

Internally generated intangible assets

5.21. Expenditure involved in the internal generation of an intangible asset falls into two phases – research and development. No intangible asset can be recognised during the research phase and all such costs must be recognised as operating expenses.

5.22. The development phase requires an NHS foundation trust to recognise an intangible asset only if it can demonstrate all of the following factors:

- technical feasibility of completing the asset to the point of being available for sale or use;
- an intention to complete the asset and sell or use it;
- its ability to sell or use the asset;
- how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the asset and sell or use it; and
- an ability to measure reliably the development expenditure on the asset.

Purchased intangible assets

5.23. Intangible assets can be purchased separately, or as part of a business combination. The latter scenario reflects business combinations under IFRS 3 and therefore NHS foundation trusts might only recognise these in situations where a business has been acquired from outside the public sector.

Software Costs

5.24. IAS 38 states that specific software which is an integral part of related hardware such that the hardware cannot be operated without it, for example the operating system for a computer, should be treated as property, plant and equipment.

5.25. Where the software is not an integral part of the hardware, for example application software, it should be treated as an intangible asset.

EU Emission Allowance Trading Scheme

5.26. Where NHS foundation trusts are members of the EU Greenhouse Gas Emission Allowance Trading Directive the scheme gives rise to an intangible asset in relation to allowances held for use on a continuing basis. If not held for use on a continuing basis, they should be classified as current assets, within current asset investments.

5.27. The allowance held for use should be shown valued at fair value even when it is purchased for less than fair value. The intangible fixed asset is written down at the year end to the extent that the NHS foundation trust has made emissions and used up its allowances. If allowances are traded then the NHS foundation trust could generate a loss or profit on disposal.

5.28. See also government grants and liabilities for other accounting entries relating to this scheme.

Impairment of Property, Plant and Equipment and Intangible Assets (IAS 36)

5.29. Much of the detail of IAS 36 is concerned with the identification of "income-generating units" (as defined by the standard) 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 IAS 36 will apply where the NHS foundation trust can identify income generating units in accordance with the standard. This might occur, for example where services are provided on a commercial basis, for example a dedicated private patients unit.

5.30. IAS 36 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.

5.31. As land and buildings are reported separately in the notes to the Statement of Financial Position, 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.

Borrowing costs (IAS 23 – revised March 2007)

5.32. The revised IAS 23 requires borrowing costs incurred in connection with the acquisition or construction of a qualifying asset (principally property, plant and equipment and intangible assets) to be capitalised and included within the cost of the asset. However, the standard does not apply where such assets are held at a valuation rather than at cost. Thus the requirements of the standard are not mandatory for NHS foundation trusts. The standard notes that it does not preclude entities in this situation from capitalising borrowing costs for initial recognition prior to the first revaluation. Since subsequent asset valuations would not reflect capitalised borrowing costs, an impairment will need to be recognised when the asset is first brought into use, and that impairment would be charged to operating expenses. Consequently, Monitor has decided that NHS foundation trusts should not capitalise borrowing costs for initial recognition and thus instead all borrowing costs should be recognised as operating expenses.

Non-current assets held for sale (IFRS 5)

5.33. Under IFRS 5, an NHS foundation trust must reclassify a non-current asset as held for sale if it expects to recover its carrying amount principally through the sale of the asset. In practice, this means that the asset must be available for immediate sale in its present condition and its sale must be highly probable. i.e.:

- management must be committed to sell the asset;
- an active programme must have been initiated to locate a buyer and complete the sale;
- the asset must be actively marketed for sale at a price reasonable to its fair value;
- the sale is expected to be complete within one year of the date of classification as 'held for sale'; or
- the remaining actions to complete the sale indicate that the plan is unlikely to change significantly or the sale to be abandoned.

5.34. An asset classified as held for sale is measured at the lower of its:

- its carrying amount; or
- its fair value less any disposal costs.

5.35. In most cases, the fair values of specialised assets held by NHS foundation trusts are likely to exceed their carrying amounts since the former takes into account potential alternate uses. In such situations, an asset held for disposal would therefore continue to be measured at its carrying amount, and this value used to calculate any subsequent profit on disposal.

5.36. Where an asset is classified as held for sale after the Statement of Financial Position date, it is not restated in the Statement of Financial Position, but if the reclassification occurs before the authorisation of the financial statements for issue, some disclosures about the asset need to be included as a note to the financial statements.

First-time adoption of IFRS

5.37. Under the requirements of IFRS 1, NHS foundation trusts must apply IFRS 5 to all non-current assets that met the criteria after 1 April 2005. A trust may apply the standard from any date earlier than 1 April 2005, but it must then be applied to all non-current assets that meet the criteria from that date, and in all cases there must be sufficient information to do so including the relevant valuation information. In practice, however, it will be sufficient for NHS foundation trusts to apply the standard to any assets that meet the definition as at 1 April 2008, as changing the treatment of assets disposed of prior to this date will have no effect on the amounts reported in the 2009/10 financial statements, including the 2008/09 comparatives.

Private Finance Initiative (PFI)

Accounting requirements

5.38. To determine the appropriate accounting treatment of a PFI scheme, the NHS foundation trust should, in the first instance, determine whether the scheme falls within the scope of IFRIC 12 'Service Concession Arrangements'. A scheme will be within the IFRIC's scope where an infrastructure asset is constructed or acquired for the scheme, or is a pre-existing asset of the NHS Foundation Trust (but also see 5.39 below) and:

- the NHS foundation trust controls or regulates what services the operator must provide with the property, to whom it must provide them and at what price; and

- the NHS foundation trust controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement (in accordance with paragraph 6 of the IFRIC, where the residual interest is not significant because the property has been used for its entire useful life during the scheme, then this second criteria should be ignored).

5.39. Practitioners should note that although IFRIC 12 only applies to service concession arrangements which involve a public service obligation, the *FReM* includes an interpretation which extends the scope of infrastructure assets to include also "permanent installations for military etc operations and non-current assets used for administrative purposes in delivering services to the public". The *FReM* also extends the scope of the IFRIC to include assets that were previously owned by the operator. This manual follows the *FReM* and also adopts these interpretations..

5.40. Where a scheme falls within the scope of IFRIC 12, the NHS foundation trust should recognise an asset of the property and a corresponding financial liability. The annual Unitary Payment should be separated between an amount for services and an amount for the property. The services element should be recognised in operating expenses to reflect the services received. The property element should be split between repayment of the financial liability and an annual finance charge calculated using the implicit interest rate in the scheme in accordance with the principles of IAS 17.

5.41. If the scheme does not fall within the scope of IFRIC 12, then the NHS foundation trust should consider whether the scheme is a lease in accordance with IAS 17 or is an arrangement which contains a lease as defined in IFRIC 4.

Disclosures

5.42. The disclosures in SIC 29 'Service Concession Arrangements: Disclosures' should be provided for all schemes.

5.43. Under section 410A of the Companies Act 2006, where an NHS foundation trust is a party to an arrangement (including PFI) which is not reflected in its Statement of Financial Position and where at the Statement of Financial Position date the risks or benefits in relation to them are material, it must disclose in a note to the accounts:

- the nature and business purpose of the arrangements, and

- the financial impact of the arrangements on the Trust.

5.44. The information need only be given to the extent necessary for enabling the financial position of the NHS foundation trust to be assessed.

Leased assets (IAS 17)

5.45. Under IAS 17, leases of property, plant and equipment are classified as either finance leases or operating leases. The characteristics typical of a finance lease include:

- ownership of the asset transfers to the lessee at the end of the lease;
- the lessee can purchase the asset at the end of the lease for less than its market value and at the outset it is reasonably certain that this option will be taken;
- the lease term is for a major part of the asset's useful economic life;
- at the start of the lease, the present value of the minimum lease payments represents substantially all of the fair value of the leased asset; and
- the leased assets are of a specialised nature such that only the lessee can use them without major modifications.

5.46. NHS foundation trusts will need to examine each of their leases to determine whether they are finance or operating leases. Where there is a lease of land and buildings together, the standard requires that they are considered separately. If the lease itself does not identify separate amounts for the land and building components, then these will need to be estimated, taking into account the extent to which the lessor is recovering the cost of each component through the lease rentals.

5.47. Land must always be accounted for as an operating lease, unless it forms part of an investment property, in which case the lease may be re-classified as a finance lease.

5.48. IFRIC 4 - ''Determining whether an arrangement contains a lease" requires other contracts to be examined to determine whether or not they contain a lease. For example, does a contract for services require the use of a specific underlying asset to which the recipient has exclusive use? Where such a lease is identified, the payments for it should be separated from the rest of the contract (using estimation techniques if necessary) and then accounted for as a finance or operating lease in accordance with IAS 17.

5.49. The assessment under IFRIC 4 should be done when the arrangement is first entered into, and should be re-assessed where the contract terms change or where the nature of the underlying asset changes. The IFRIC permits an exemption, which NHS foundation trusts should follow, whereby the assessment can be done based on the contractual conditions applying at the Date of Transition to IFRS i.e. 1 April 2007. NHS foundation trusts should therefore examine their contracts to identify instances where they may be asset-specific. Such contracts may be include, for example, payments from one NHS body to another in respect of shared facilities e.g. a PCT using buildings, facilities and services on the site of an acute hospital, in return for an annual 'service payment'.

Investment Property (IAS 40)

5.50. The accounting requirements for investment property are set out in IAS 40. Practitioners should note the following *FReM* interpretation, which is also adopted by this manual, in respect of identifying investment property. Only those assets which are held solely to generate a commercial return should be considered to be investment properties within the meaning of IAS 40. Where an asset is held, in part, for support service delivery objectives, then this should be considered to be an item of property, plant and equipment and should be accounted for in accordance with IAS 16, as described above. Indications that a property is not an investment property might include, for example, lessees being charged rentals at less than market value, or properties being under-used without any plan to alter their use, dispose of them or otherwise take steps to improve the return on the asset. IAS 40 states that properties occupied by employees, whether or not they pay rent at market rates, are not investment properties.

5.51. While few NHS foundation trusts may have investment properties, they may be found in subsidiaries and can often be held by NHS charitable funds. Thus if the charitable funds are consolidated into the accounts of the NHS foundation trust, then they will need to be accounted for in accordance with IAS 40 in the consolidated accounts.

5.52. Investment properties should be measured at fair value in the financial statements. The cost option in the standard is withdrawn. Changes in the fair value of the property should be recognised as revenue gains or losses.

Financial instruments (IAS 32, 39 and IFRS 7)

5.53. The three international accounting standards which deal with financial instruments are IAS 32, IAS 39 and IFRS 7. These standards can be very complex in areas - in particular the very detailed definitions that can be found throughout the standards. Practitioners therefore should ensure they are thoroughly familiar with the standards and take care to ensure that their transactions are properly classified, measured and disclosed.

Presentation (IAS 32)

5.54. IAS 32 requires that all financial instruments should be identified and classified as financial assets, financial liabilities or equity instruments. Financial assets and financial liabilities should be shown within 'net assets' in the Statement of Financial Position.

5.55. HM Treasury has concluded, with the agreement of FRAB, that PDC is not a financial instrument within the scope of IAS 32. It should continue to be presented within 'Taxpayers' Equity' in the Statement of Financial Position.

5.56. A financial instrument is defined in paragraph 11 of IAS 32 as a "contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity". NHS foundation trusts could have financial instruments under any of the following categories:

- investments.
- Interests in subsidiaries, associated and joint ventures – in some circumstances, depending on their classification.
- finance lease receivables.
- trade debtors (but not prepayments).
- cash at bank and in hand.
- trade creditors (but not deferred income).
- Loans;
- finance lease obligations; and
- provisions.

5.57. Some financial instruments are covered by other standards and therefore do not fall under the remit of IAS 32, 39 and IFRS 7:

- *employers' rights and obligations under pension schemes; and*
- *Interests in subsidiaries, associated and joint ventures.*

Recognition and De-recognition (IAS 39)

5.58. In accordance with IAS 39, financial assets and liabilities should be recognised on the Statement of Financial Position when the NHS foundation trust becomes party to the contractual provisions of the financial instrument.

5.59. Financial liabilities are de-recognised when the obligations under them are discharged, for example through payment, expire or otherwise lapse.

5.60. The rules for de-recognising financial assets are more complex and first require an assessment of whether partial de-recognition should occur. Where the rights to a financial asset have been transferred to another party, de-recognition may be possible depending on the terms of the transfer.

5.61. Under IFRS 1, NHS foundation trusts can only apply the rules on de-recognition prospectively from 1 January 2004 i.e. they cannot re-recognise a financial instrument that they de-recognised prior to this date. IFRS does, however, permit retrospective application of the de-recognition rules to an earlier date of an entity's choosing if they have all available information with which to do so.

Measurement (IAS 39)

5.62. Certain types of financial instrument which have their own accounting standards should be measured in accordance with those standards rather than IAS 39. Examples include finance leases which are measured in accordance with IAS 17 and Provisions which should be measured in accordance with IAS 37. Paragraph 2 of IAS 39 provides a full list. However, any embedded derivatives contained in these transactions will fall within the scope of IAS 39.

5.63. All other financial instruments should be measured in accordance with IAS 39.

Initial measurement at Fair Value

5.64. Once financial assets and liabilities have been identified and recognised they are initially measured at Fair Value. Fair Value is the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where future cashflows are discounted to measure fair value, NHS foundation trusts should use a market rate for similar instruments and similar entities (adjusted for credit risk where appropriate)**.** However, in some instances, NHS foundation trusts may enter into loan arrangements with other parties where the loan's interest rate is nil or otherwise less than a market rate. In these instances, the fair value of the loan should be determined by reference to market rates. Such a market rate should reflect the credit risk of the loan recipient. Any difference arising between the transaction price and the fair value at initial recognition (the 'Day 1 gain or loss') should be recognised as a revenue gain or loss immediately. Such arrangements should be disclosed in the free text sheets of the FTC.

Subsequent measurement

5.65. For subsequent measurement, financial instruments need to be classified in accordance with the standard. Financial assets will be classified into one of the following four measurement bases depending on their type:

- ‘Fair Value through income and expenditure’ – assets which meet the definition of ‘held for trading’ and all derivatives (other than any designated as hedging instruments) are valued at fair value and any changes in the carrying amount are recognised as revenue gains or losses. Other financial assets can be designated voluntarily by the entity as ‘fair value through income and expenditure’ on initial recognition but only if the criteria specified in the standard are met;

- amortised cost – loans and other receivables, and investments which are held to maturity are valued at amortised cost and any changes in the carrying amount are recognised as revenue gains or losses. It is likely that NHS foundation trusts will have financial assets which fall into this category;

- Fair value through reserves – financial assets which are designated as available for sale are valued at fair value but changes to the carrying amount are taken to a fair value reserve. When an asset is subsequently disposed of, any cumulative gain or loss in the reserve attributable to the asset is transferred out of the reserve and recognised as an in-year revenue gain or loss (it is not transferred directly to the I&E Reserve) in the year of disposal; and

- Historical cost – investments in unquoted companies whose fair value cannot be determined are held at historic cost.

5.66. Financial liabilities which meet the definition of ‘held for trading’ or which are derivatives (other than any designated as hedging instruments) must be measured at ‘fair value through income and expenditure’. Financial liabilities can be designated voluntarily as ‘fair value through income and expenditure’ provided that certain criteria are met. All other liabilities are valued at amortised cost.

Derivatives and embedded derivatives (IAS 39)

5.67. Derivatives are financial assets or liabilities which require no initial investment, will be settled at a future date and whose value changes in relation to:

- A specified rate, index or other financial variable; or

- A non-financial variable which is not specific to either party to the contract

5.68. An example of a derivative is a forward contract with a bank to purchase euros on a future date at a pre-determined exchange rate. This might be used when a NHS foundation trust agrees to purchase an asset from a European manufacturer and payment must be made in euros on the day of delivery. The forward contract therefore protects the NHS foundation trust from the exchange rate risk. The arrangement to fix the exchange rate does not require any investment and changes with exchange rate fluctuations.

5.69. Derivatives need not necessarily be stand alone – they can be embedded in other contracts wherever there are contract terms which permit the cash flows under the contract to vary. Where the variable is ‘closely related’ to the contract then the embedded derivative can be ignored and the contract accounted in accordance with the relevant accounting standard. Where, however, the embedded derivative is not ‘closely-related’ to the host contract, it has to be split from the main contract and accounted for separately at ‘Fair Value through income and expenditure’. IAS 39 does not define the term ‘Closely-related’ but a series of examples of embedded derivatives which are ‘closely-related’ and are not ‘closely-related’ is contained in the Application Guidance of the standard.

5.70. Embedded derivatives can often be found in loans, leases and PFI contracts, but can also be found in contracts for the supply of goods or services. NHS foundation trusts will need to review all contracts to identify whether there they contain embedded derivatives. Where they are identified an assessment will need to be made as to whether or not they are closely related to the host contract and if they are not they will need to be accounted for separately from the host contract.

5.71. IFRC 9 – "Re-assessment of embedded derivatives" requires a contract to be assessed for the presence of embedded derivatives at the time the contract is entered into. Subsequence re-assessment is prohibited unless the contract terms are changed in such a way as to significantly modify the cashflows that would otherwise occurred, in which case re-assessment is required. NHS foundation trusts applying IFRS for the first time must perform the assessment for all existing contracts as at the Date of Transition to IFRS i.e. 1 April 2007 and for all contracts entered into subsequent to that date. When assessing whether or not any embedded derivatives found are closely-related to their host contracts, IFRIC 9 should be followed and the assessment based on the contract conditions at the date at which the contract was originally entered into, or if the contract has since been altered significantly, the conditions as at the date of such a change.

Disclosures (IFRS 7)

5.72. These disclosures apply to all financial instruments within the scope of IAS 32, even where they are not measured in accordance with IAS 39. For example the IFRS 7 disclosures apply to finance leases in addition to the disclosure requirements in IAS 17.

5.73. IFRS 7 requires that all financial instruments should be disclosed in the accounts, either on the face of the Statement of Financial Position or in separate notes. This analysis should also distinguish between the different classifications of financial assets and liabilities (as defined in paragraph 5.65 and 5.66 above.

5.74. Where a financial asset has been reclassified then the amount reclassified and the reasons for the reclassification should be disclosed.

5.75. Where all or part of a category of financials asset is derecognised then the nature of the assets retained and the nature of the risks and rewards of ownership to which the entity is exposed should be disclosed. Where the NHS foundation trust continues to recognise some of the asset then the amounts held and the extent of its continuing involvement should also be disclosed.

5.76. The NHS foundation trust should disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes to the accounts:

- Net gains or losses on:
    - financial assets or financial liabilities at 'Fair value through income and expenditure';
    - available for sale financial assets, showing the gain or loss recognised directly in reserves and that recognised in revenue separately;
    - loans and receivables; and
    - financial liabilities measured at amortised cost.

- total interest income and total interest expense for financial assets and liabilities not measured at fair value through profit and loss; and

- the amount of any impairment loss for each class of financial asset.

5.77. The accounting policies note should disclose:

- the measurement basis used in preparing the financial statements;

- for assets and liabilities measured at fair value, how that fair value has been calculated; and

- the basis for reporting realised and unrealised gains and losses, interest and other items of income and expenditure in the income and expenditure account;

5.78. IFRS 7 also requires qualitative and quantitative disclosures relating to the risks associated with financial instruments. There are 3 types of risk:

- Market risk – this is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market prices. It is subdivided into three types of risk:

    - interest rate risk;

    - currency risk; and

    - other price risk which may relate specifically to the instrument or may relate to all similar financial instruments in the market.

- Credit risk – this is the risk that one party to a financial instrument will cause financial loss for another party by failing to discharge an obligation; and

- Liquidity risk – this is the risk that the NHS foundation trust will encounter difficulties meeting obligations associated with financial liabilities.

5.79. For each of the classifications of financial asset and liability disclosures are required in relation to the NHS foundation trust's exposure to risks and the objectives, policies and processes used to mitigate that risk.

Financial instruments - specific issues

Provision for irrecoverable debts

5.80. The Road Traffic Accident (RTA) scheme was replaced by the NHS Injury Scheme on 22 January 2007. It is expected that the Compensation Recovery Unit will provide information in relation to the level of irrecoverable debts under the new system.

5.81. 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

5.82. All debtor and creditor balances relating to tax and social security should be included in the FTC forms, in accordance with the FTC completion notes.

Deferred income

5.83. Government grants received, including receipts from the Big Lottery Fund (or its predecessor bodies), directly by the NHS foundation trust, to finance fixed assets should be credited to the deferred income balance. Where these balances are material they should be separately disclosed as deferred government grants under deferred income.

5.84. The deferred government grant should be credited to operating income over the useful economic life of the asset.

Provisions (IAS 37)

5.85. For presentation purposes in the Statement of Financial Position, all provisions need to be separated into the amounts falling due within one year, and the amounts falling due after one year. Where the time value of money is material and the amounts are expressed in current prices, the provision must be discounted using the real discount rate set by HM Treasury. This rate is presently 2.2%.

Clinical *negligence* ***claims***

5.86. 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

5.87. NHS employers are responsible for meeting additional costs arising from early retirement. A provision should be established in relation to these costs as soon as the conditions set out in IAS 19 are met. Once a decision has been made then agreement must be reached with NHS Pensions as to how the liability will be discharged. If a lump sum payment is agreed, this payment should be charged against the provision initially, and thereafter to operating expenses. If a 5-year payment is agreed, then the provision should be adjusted to this amount and transferred to 'Trade and Other Payables', split appropriately between a current liability and a non-current liability.

Injury benefits

5.88. 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 NHS Pensions. The agency will notify the claimants' employer of the award made. Shortly after payments are made, NHS Pensions 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 IAS 37, including discounting if material.

EU greenhouse gas emissions allowance trading scheme

5.89. Where the NHS foundation trust is a member of the EU Greenhouse Gas Emission Allowance Trading scheme, it should recognise a liability as emissions are made and the NHS foundation trust is obliged to deliver allowances equal to the emissions made. The liability should be shown as a provision which should be valued at the best estimate of the expenditure required to settle the obligation. This will be market price at the Statement of Financial Position date. The provision will be settled by giving up allowances held and therefore writing down the associated intangible asset.

Taxpayer's Equity

Public dividend capital

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

Donated asset reserve

5.91. The donated asset reserve is maintained to:

- represent the financing associated with the receipt of a donated asset (i.e. it provides the credit side to the transaction debiting property, plant and equipment); and
- to provide a mechanism for neutralising depreciation or profit/loss on disposal charged to the Statement of Comprehensive Income in respect of donated assets (a transfer from the donated asset reserve is made to operating income or operating expenditure to match the charge or gain).

5.92. 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 the debit is taken to the donated asset reserve; and
- depreciation is charged to operating expenditure in exactly the same way as would the depreciation on a purchased asset. A transfer is made from the donated asset reserve to operating income 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 taken to operating income in the current year to neutralise the charge.

5.93. The carrying amounts of donated assets continue at all times to equal the value of the donated asset reserve.

5.94. 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 Statement of Comprehensive Income 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.

5.95. Transfers from the donated asset reserve to the Statement of Comprehensive Income should be accounted for within operating income or operating expenditure as appropriate, and should be disclosed separately in the notes analysing these items.

5.96. The donated asset reserve should be disclosed as part of taxpayers' equity. This is consistent with the *FReM* disclosure requirements. The rationale for this treatment is that net assets will have increased through the provision of the donated asset (as there is no related liability) and as such taxpayers' equity will also increase.

Notes to the Statement of Financial Position

General Disclosures

5.97. NHS foundation trusts should include in their financial statements all relevant disclosures, as set out in Standards and Interpretations. Additionally, they should include the following disclosure specific to NHS foundation trusts.

Property, Plant and Equipment: protected and non-protected assets

5.98. 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 NHS foundation trusts*, published October 2004).

Property, Plant and Equipment: disclosure of historical cost carrying amounts

5.99. It is not necessary to disclose the historical cost carrying amounts required by paragraph 77(e) of IAS 16.

Annex 1 to Chapter 5: Example Statement of Financial Position

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 20CC

	31 March 20CC £000	31 March 20BB £000
NON-CURRENT ASSETS:		
Intangible assets	X	Y
Property Plant and Equipment	X	Y
Investment Property	X	Y
Investments in associates and JVs using the equity method	X	Y
Trade and other receivables	X	Y
Other financial assets	X	Y
Other assets	X	Y
Total non-current assets	X	Y
CURRENT ASSETS:		
Inventories	X	Y
Trade and other receivables	X	Y
Other financial assets	X	Y
Tax receivable	X	Y
Non-current assets held as held for sale and assets in disposal groups classified as held for sale	X	Y
Cash and cash equivalents	X	Y
Total current assets	X	Y
CURRENT LIABILITIES:		
Trade and other payables	(X)	(Y)
Borrowings	(X)	(Y)
Other financial liabilities	(X)	(Y)
Provisions	(X)	(Y)
Other liabilities	(X)	(Y)
Tax payable	(X)	(Y)
Liabilities in disposal groups classified as held for sale	(X)	(Y)
Total current liabilities	(X)	(Y)
NON-CURRENT LIABILITIES:		
Trade and other payables	(X)	(Y)
Borrowings	(X)	(Y)
Other financial liabilities	(X)	(Y)
Provisions	(X)	(Y)
Tax payable	(X)	(Y)
Other liabilities	(X)	(Y)
Total non-current liabilities	(X)	(Y)
Total assets employed	X	Y

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 20CC

	31 March 20CC £000	31 March 20BB £000
TAXPAYERS' EQUITY:		
Minority Interest	X	Y
Public dividend capital	X	Y
Revaluation reserve	X	Y
Available for sale financial assets reserve	X/(X)	Y/(Y)
Other reserves	X/(X)	Y/(Y)
Merger reserve	X	Y
Income and expenditure reserve	X/(X)	Y/(Y)
TOTAL TAXPAYERS' EQUITY	X	Y

6. Other Statements and Notes

Statement of Changes in Taxpayers' Equity

6.1. IAS 1 (Revised) requires entities to prepare a Statement of Changes in Taxpayers' Equity as a primary statement. This essentially combines the information presented in the Movement on Reserves note and the Movement in Public Dividend Capital note under UK GAAP. There is no prescribed format but one possible approach is included at Annex 1 to this Chapter.

Statement of Cash Flows

6.2. In accordance with IAS 7, the face of the statement should analyse cashflows under the headings of Operating, Investing and Financing cashflows. There is no prescribed format but one possible approach, reflecting the example in IAS 1, is included at Annex 1 to this Chapter.

6.3. The standard permits discretion as to where certain cashflows may be disclosed, depending on how an entity views them in relation to its activities. In order to ensure consistency of treatment, Monitor has considered where the following cashflows should be disclosed within the Statements of Cash Flows of NHS foundation trusts:

- Interest received on investments represents cashflows associated with investing activities and should be disclosed under that heading.
- Cashflows in relation to the payment of interest, including the interest element of finance lease rentals, are associated with financing activities and should therefore be disclosed under that heading.
- The payment of PDC dividend represents also a cash flow associated with financing activities and therefore should be disclosed under that heading.

6.4. NHS foundation trusts have the option of using either the direct or indirect method in their financial statements, but should note that the FTC forms use the indirect method and so the NHS foundation trust should ensure that it has the information in the format needed to complete these. The financing section of the cash flow statement must include the headings required in the FTC forms.

Other notes to the accounts

Prudential Borrowing Limit

6.5. 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.

6.6. NHS foundation trusts should include a note to the accounts disclosing their performance against both elements of their prudential borrowing limit (PBL) at the Statement of Financial Position 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 20xx/yy (£x in 20vv/xx). The Trust has actually borrowed £x in 20xx/yy (£x in 20vv/xx).

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

The Trust has £x of approved working capital facility (£x in 20vv/xx). The Trust had drawn down £x of its working capital facility at 31 March 20yy (£x at 31 March 20xx).

6.7. 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 long term borrowing limit; and

- 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."

Third party assets

6.8. The *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.

Losses and special payments

6.9. 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 amounts are reported on an accruals basis but excluding provisions for future losses; and
- any other explanation considered necessary.

6.10. Guidance on the definitions of losses and special payments can be found in annex 4.10 of HM Treasury's 'Managing Public Money', which can be found on the HMT website here. This guidance will apply to NHS foundation trusts in full.

Audit fees

6.11. 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 Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489), which requires that in addition to the disclosure of the audit fee, non-audit fees are disclosed across the following headings:

- audit fee for associated companies;
- taxation services;
- IT services;
- internal audit services;
- valuation and actuarial services;
- litigation services;
- recruitment and remuneration services;
- corporate finance transactions; and
- all other services.

6.12. 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.

Auditor Liability Limitation Agreements

6.13. In accordance with the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 489/2008), where an NHS Foundation Trust's contract with its auditors provides for a limitation of the auditor's liability, the principal terms of this limitation should be disclosed in a note to the accounts.

Related party transactions

6.14. NHS foundation trusts should establish which entities and individuals are its related parties, in accordance with IAS 24. The following will be related parties of an NHS foundation trust:

- Any entity which controls the NHS foundation trust, or is under common control with the NHS foundation trust. This will include all bodies within the scope of the Whole of Government Accounts.
- Any entity over which the NHS foundation trust has control i.e. any subsidiaries (including where appropriate, the NHS charitable funds).
- Any associate of the NHS foundation trust (within the meaning of IAS 28)
- Any joint venture in which the NHS foundation trust is a venturer (within the meaning of IAS 31).
- Key management personnel.
- Any close family member of any individual within the categories above.
- Any entity controlled, jointly controlled, or significantly influenced by any member of key management personnel or a close family member.
- Any pension scheme of which employees of the NHS foundation trust is a member, and any pension scheme of any other related party, as defined above. This will include the NHS Pension Scheme and any other pension scheme of which the NHS foundation trust is a member.

6.15. The interpretation in paragraph 11(c)(iv) of the standard that Government departments and agencies are not necessarily related parties is to be dis-applied.

6.16. NHS foundation trusts should disclose all related party relationships in the notes to the accounts.

6.17. Details of all material transactions with related parties must also be disclosed, with materiality being considered from the perspective of the related party and not just from the perspective of the NHS foundation trust.

6.18. A specific requirement of the standard is that the total of key management personnel compensation is to be disclosed, analysed across the following categories:

- short-term employee benefits;
- post-employment benefits;
- other long-term benefits;
- termination benefits; and
- share-based payment (not likely to be relevant to NHS foundation trusts).

6.19. In practice, the disclosure of key management personnel compensation can be combined with the Companies Act disclosure requirements, described in paragraphs 4.53 to 4.56.

Subsidiary and associated undertakings

6.20. Section 409 of the Companies Act 2006, together with regulation 7 and Schedule 4 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), requires the disclosure of certain information in respect of subsidiaries and associates.

Annex 1 to Chapter 6: Example SoCiE and Statement of Cash Flows

EXAMPLE STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	Total	Minority Interest	Public Dividend Capital	Revaluation Reserve	Donated Assets Reserve	Available for Sale Investments Reserve	Charitable Funds	Other Reserves	Merger Reserve	Income and Expenditure Reserve
Taxpayers' Equity at 1 April 20AA	Y	Y	Y	Y	Y	Y/(Y)	Y	Y	Y	Y/(Y)
Prior period adjustment – e.g. Restatement to IFRS	Y/(Y)	Y/(Y)	Y/(Y)	Y/(Y)	Y/(Y)	Y/(Y)	Y/(Y)	Y/(Y)	Y/(Y)	Y/(Y)
Taxpayers' Equity at 1 April 20AA, as restated	Y	Y	Y	Y	Y	Y/(Y)	Y	Y	Y	Y/(Y)
At start of period for new FTs	Y	Y	Y	Y	Y	Y/(Y)	Y	Y	Y	Y/(Y)
Surplus/(deficit) for the year	Y/(Y)	Y/(Y)					Y/(Y)			Y/(Y)
Share of comprehensive income from associates and joint ventures	Y/(Y)	Y/(Y)					Y/(Y)	Y/(Y)		Y/(Y)
Revaluation gains/(losses) and impairment losses on intangible assets	Y/(Y)			Y/(Y)						
Revaluation gains/(losses) and impairment losses property, plant and	Y/(Y)			Y/(Y)						

equipment								
Revaluation gains/(losses) and impairment losses arising from classifying non current assets as Assets Held for Sale	Y/(Y)		Y/(Y)					
Fair Value gains/(losses) on Available-for-sale financial investments	Y/(Y)				Y/(Y)			
Recycling gains/(losses) on Available-for-sale financial investments	Y/(Y)				Y/(Y)			
Increase in the donated asset reserve due to receipt of donated assets	Y			Y				
Reduction in the donated asset reserve in respect of depreciation, impairment, and/or disposal of on donated assets	(Y)			(Y)				
Additions/(reduction) in Other reserves	Y/(Y)	Y/(Y)				Y/(Y)	Y/(Y)	Y/(Y)
Other recognised gains and losses	Y/(Y)	Y/(Y)			Y/(Y)			Y/(Y)
Actuarial gains/(losses) on defined benefit pension schemes	Y/(Y)							Y/(Y)
Transfers to the income and expenditure account in	-		(Y)					Y

respect of assets disposed of										
Transfer of the excess of current cost depreciation over historical cost depreciation to the Income and Expenditure reserve	-			(Y)						Y
Public Dividend Capital received	Y		Y							
Public Dividend Capital repaid	(Y)		(Y)							
Public Dividend Capital repayable (creditor)	(Y)		(Y)							
Public Dividend Capital written-off	(Y)		(Y)							
Other transfers between reserves	-									
Movements on other reserves										
Taxpayers’ Equity at 31 March 20BB	Y	Y	Y	Y	Y	Y/(Y)	Y	Y	Y	Y/(Y)
Taxpayers' Equity at 1 April 20BB	Y	Y	Y	Y	Y	Y/(Y)	Y	Y	Y	Y/(Y)
At start of period for new FTs	X	X	X	X	X	X/(X)	X	X	X	X/(X)
Total Comprehensive Income for the year[/period]	X/(X)	X/(X)		X/(X)	X/(X)	X/(X)	X/(X)	X/(X)		X/(X)

Surplus/(deficit) for the year	Y/(Y)	Y/(Y)				Y/(Y)		Y/(Y)
Share of comprehensive income from associates and joint ventures	Y/(Y)	Y/(Y)				Y/(Y)	Y/(Y)	Y/(Y)
Revaluation gains/(losses) and impairment losses on intangible assets	Y/(Y)		Y/(Y)					
Revaluation gains/(losses) and impairment losses property, plant and equipment	Y/(Y)		Y/(Y)					
Revaluation gains/(losses) and impairment losses arising from classifying non current assets as Assets Held for Sale	Y/(Y)		Y/(Y)					
Fair Value gains/(losses) on Available-for-sale financial investments	Y/(Y)				Y/(Y)			
Recycling gains/(losses) on Available-for-sale financial investments	Y/(Y)				Y/(Y)			
Increase in the donated asset reserve due to receipt of donated assets	Y			Y				
Reduction in the donated asset reserve in respect of depreciation, impairment, and/or disposal of on	(Y)			(Y)				

donated assets							
Additions/(reduction) in Other reserves	Y/(Y)	Y/(Y)			Y/(Y)	Y/(Y)	Y/(Y)
Other recognised gains and losses	Y/(Y)	Y/(Y)		Y/(Y)			Y/(Y)
Actuarial gains/(losses) on defined benefit pension schemes	Y/(Y)						Y/(Y)
Transfers to the income and expenditure account in respect of assets disposed of			(X)				X
Transfer of the excess of current cost depreciation over historical cost depreciation to the Income and Expenditure reserve			(X)				X
Public Dividend Capital received	X	X					
Public Dividend Capital repaid	(X)	(X)					
Public Dividend Capital repayable (creditor)	(X)	(X)					
Public Dividend Capital written-off	(X)	(X)					
Other transfers between reserves	-						
Movements on other							

reserves										
Taxpayers’ Equity at 31 March 20CC	X/(X)	X	X	X/	X	X/(X)	X	X/	X	X/(X)

EXAMPLE STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 March 20CC

	20BB/CC £000	20AA/BB £000
Cash flows from operating activities		
Net cash generated from/(used in) operations	X/(X)	Y/(Y)
Cash flows from investing activities		
Interest received	X	Y
Payments to acquire tangible fixed assets	(X)	(Y)
Receipts from sale of tangible fixed assets	X	Y
Net cash generated from/(used in) investing activities	X/(X)	Y/(Y)
Cash flows from financing activities		
Public dividend capital received	X	Y
Public dividend capital repaid	(X)	(Y)
Loans received	X	Y
Loans repaid	(X)	(Y)
Capital element of finance lease rental payments	(X)	(Y)
Interest paid	(X)	(Y)
Interest element of finance leases	(X)	(Y)
PDC Dividends paid	(X)	(Y)
Net cash generated from/(used in) financing activities	X/(X)	Y/(Y)
Increase/(decrease) in cash and cash equivalents	X/(X)	Y(Y)
Cash and Cash equivalents at 1 April 20BB/AA	Y/(Y)	Y/(Y)
Cash and Cash equivalents at 31 March CC/BB	X/(X)	Y/(Y)

7. Annual reporting guidance for NHS foundation trusts

Introduction

7.1. Schedule 7, paragraph 26 of the NHS Act 2006 (the 2006 Act) requires NHS foundation trusts to prepare an annual report. Paragraph 26(3) of Schedule 7 provides that it is for Monitor to decide the form of the reports, when the reports are to be submitted, and the periods to which the reports relate.

7.2. 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.

7.3. NHS foundation trusts should ensure they have read and understood Chapter 1 and Annex 2 to Chapter 1 about preparing and submitting their annual report and accounts.

Content of the annual report

7.4. This guidance draws on the *FReM*, which interprets commercial requirements in the context of the public sector. As the *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 the *FReM* as relevant to NHS foundation trusts.

7.5. The annual report of NHS foundation trusts must, as a minimum, include:

- a directors' report including a management commentary;
- a remuneration report;
- the disclosures set out in the *NHS Foundation Trust Code of Governance*;
- a quality report;
- non-financial reporting covering sustainability/climate change, regulatory ratings, equality and diversity, and staff survey;
- other disclosures in the public interest;
- a statement of Accounting Officer's Responsibilities; and
- a statement on Internal Control.

Directors' report

7.6. The Directors' report should be prepared in accordance with:

- Sections 415 to 418 of the Companies Act 2006 (It should be noted that section 415(4) and (5) and section 418(5) and (6) do not apply to NHS foundation trusts);

- Regulation 10 and Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the Regulations**");** and

- additional disclosures required by the *FReM*, as described below.

General Companies Act disclosures (s416)

7.7. This section sets out the following further information, as interpreted, to be included in the Directors' Report:

- the names of individuals who at any time during the financial year were directors of the NHS Foundation Trust; and

- the principal activities of the NHS Foundation Trust during the year (including that of any subsidiaries).

Further Companies Act disclosures (s416 and Regulation 10 and Schedule 7 of the Regulations)

7.8. The Regulations, issued under s416, set out a series of disclosures to be included in the Directors' Report. A summary of the requirements is included in Annex 1 to this chapter, but practitioners should refer to the regulations themselves to ensure that they comply with all of the requirements. NHS foundation trusts should ensure that the information is only included where it is relevant to its operations.

Business Review (s417) / Management Commentary / Operating and Financial Review

7.9. The *FReM* interprets the reporting requirements of the Business Review to be met through a Management Commentary, which should also reflect the recommendations set out in the Accounting Standards Board's Reporting Statement: Operating and Financial Review. The purpose of the business review is to inform users of the accounts and help them assess how the directors have performed their duties.

7.10. The business review must contain:

- a fair review of the NHS foundation trust's business;

- a description of the principal risks and uncertainties facing the NHS foundation trust;

- a balanced and comprehensive analysis of the development and performance of the NHS foundation trust's business during the financial year, and of the position of the business at the end of that financial year;

- the business review must, to the extent necessary for an understanding of the development, performance or position of the NHS foundation trust's business, include:

    - o the main trends and factors likely to affect the future development, performance and position of the NHS foundation trust's business.

- information about:
  - environmental matters (including the impact of the NHS foundation trust's business on the environment);
  - the NHS foundation trust's employees; and
  - social and community issues.

  including information about any policies of the NHS foundation trust in relation to those matters and the effectiveness of those policies.

- information about persons with whom the NHS foundation trust has contractual or other arrangements which are essential to the business of the NHS foundation trust (unless disclosure would, in the opinion of the directors, be seriously prejudicial to that person and contrary to the public interest);
- an analysis using financial key performance indicators; and
- where appropriate, an analysis using other key performance indicators, including information relating to environmental matters and employee matters.

  "Key performance indicators" means factors by reference to which the development, performance or position of the NHS foundation trust's business can be measured effectively.

- The review must, where appropriate, include references to, and additional explanations of, amounts included in the NHS foundation trust's financial statements.
- In relation to a directors' report on consolidated accounts, these requirements apply to the activities and business of all entities included in the consolidation.
- Disclosures of information about impending developments or matters in the course of negotiation are not required if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the NHS foundation trust.

ASB Reporting Statement: Operating and Financial Review (OFR)

7.11. As noted, above the Business Review should reflect the recommendations of the ASB's Reporting Statement on the OFR, which seeks to ensure that a Business Review/Management Commentary/OFR is a balanced and comprehensive analysis of:

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

7.12. The key principles underlying the information reported are that the OFR should:

- set out an analysis of the business through the eyes of the board of directors;
- focus on matters that are relevant to the interests of users of the Annual Report and Accounts;
- 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;
- complement as well as supplement the financial statements, in order to enhance the overall corporate disclosure;
- be comprehensive and understandable;
- be balanced and neutral, dealing even-handedly with both good and bad aspects; and
- be comparable over time.

7.13. In addition to the Reporting Statement's recommended disclosures in respect of the strategies, performance, resources and financial position of the business, NHS foundation trusts may wish to consider highlighting information about patient care activities (cross referencing to where it is covered in more detail in the quality report) and stakeholder relations, for example:

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 Care Quality 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 Care Quality Commission reports.
- Improvements in patient/carer information.
- Information on complaints handling.

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.

Statement as to disclosure to auditors (s418)

7.14. The directors' report must contain a statement to the effect that, for each individual who is a director at the time that the report is approved:

- so far as the director is aware, there is no relevant audit information of which the NHS foundation trust's auditor is unaware, and

- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the NHS foundation trust's auditor is aware of that information.

7.15. "Relevant audit information" means information needed by the NHS Foundation Trust's auditor in connection with preparing their report.

7.16. A director is regarded as having taken all the steps that they ought to have taken as a director in order to do the things mentioned above

- made such enquiries of his fellow directors and of the company's auditors for that purpose; and

- taken such other steps (if any) for that purpose, as are required by his duty as a director of the company to exercise reasonable care, skill and diligence.

Additional disclosures required by the *FReM*

7.17. The *FReM* requires further disclosures, of which those relevant to NHS foundation trusts are:

- a note that the accounts have been prepared under a direction issued by Monitor;

- a brief history of the NHS foundation trust and its statutory background;

- an explanation of the adoption of the going concern basis (see below);

- a statement that accounting policies for pensions and other retirement benefits are set out in note *XX* to the accounts and that details of senior employees' remuneration can be found in page *X* of the remuneration report; and

- details of company directorships and other significant interests held by directors or governors which may conflict with their management responsibilities. Where the NHS foundation trust maintains a Register of Interests that is open to the public, the disclosure may be limited to a comment on how access to the information in that Register may be obtained.

Going concern

7.18. 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.

7.19. 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, with supporting assumptions or qualifications as necessary (*NHS Foundation Trust Code of Governance F.1.2*).

7.20. A typical disclosure, based on guidance from the Accounting Standards Board, would read:

7.21. *"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."*

7.22. 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.

Remuneration report

7.23. The *FReM* requires NHS foundation trusts to prepare a remuneration report in their Annual Report and Accounts which complies with:

- Sections 420 to 422 of the Companies Act 2006 (it should be noted that section 420(2) and (3), section 421(3) and (4) and section 422(2) and (3) all do not apply to NHS foundation trusts);

- Regulation 11 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) ("the Regulations"); and

- Elements of the NHS Foundation Trust Code of Governance.

7.24. Compliance with this 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.

7.25. The remuneration report must be signed by the chief executive.

7.26. 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".

7.27. The remuneration report shall include information under the following headings to the extent that they are relevant.

Contents of the remuneration report – Information not subject to audit

7.28. The following information is required by Part 2 of Schedule 8 to the Regulations, or where stated by the NHS Foundation Trust Code of Governance, and is not subject to audit.

- Details of the membership of the remuneration committee, this means the names of the chair and members of the remuneration committee should be disclosed (Code of Governance A.1.2).

- The number of meetings and individual's attendance at each should also be disclosed (Code of Governance A.1.2).

- The name of any person (and in particular any director of the Trust who was not a member of the committee) who provided advice or services to the committee that materially assisted the committee in their consideration of any matter. Where such a person is not a director of the Trust: a description of the nature of any other services that person has provided to the Trust during the financial year and whether that person was appointed by the committee (Paragraph 2(1)(c) of Schedule 8 to the Regulations).

- A 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.

- An 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.

- An explanation of relative importance of the relevant proportions of remuneration which are, and which are not, subject to performance conditions.

- A summary and explanation of policy on duration of contracts, and notice periods and termination payments.

- A statement of how pay and employment conditions of other employees were taken into account when determining directors' remuneration.

- Details of the service contract for each senior manager who has served during the year.

    - The date of the contract, the unexpired term, and details of the notice period.

    - Any provision for compensation for early termination.

    - Other details sufficient to determine the entity's liability in the event of early termination.

- An explanation of any significant awards made to past senior managers.

Contents of the remuneration report – Information subject to audit

7.29. The following information is required by Part 3 of Schedule 8 to the Regulations, or where stated by the NHS Foundation Trust Code of Governance, and is subject to audit.

7.30. For each senior manager (see definition below) 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). (See definition below).

- 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.

- Pension disclosures (see below):

  - 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 £5,000;

  - 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; and

  - the value of the cash equivalent transfer value at the end of 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.

- Where an executive director serves as a non-executive director elsewhere a statement as to whether or not the director will retain earnings relating to that non-executive appointment *(Code of Governance E.1.3).*

Definition of "senior managers"

7.31. 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 confirm whether this covers more than the chair, the executive and non-executive directors of the NHS foundation trust (who should be treated as senior managers as a matter of course).

7.32. This note covers all those individuals who hold or have held office as chairman, non-executive director, executive director or senior manager (as identified by the Chief Executive) 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);

- 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.

7.33. Following a case arising under the Freedom of Information Act, the Information Commissioner determined that consent is not needed for the disclosure of salary and pension details for named individuals. Entities are therefore entitled to publish senior managers' remuneration details without obtaining their prior consent. 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.

7.34. Non-disclosure is only acceptable where senior managers can demonstrate that disclosure would cause or be likely to cause substantial damage or substantial distress and that damage or distress would be unwarranted. Where non-disclosure is agreed, the fact that certain disclosures have been omitted should be disclosed.

7.35. For further information see the Information Commissioner's ruling reference FS50093734 on their website http://www.ico.gov.uk/ or FRAB paper 81(08) on their website http://www.hm-treasury.gov.uk./documents/public_spending_reporting/frab/psr_reporting_statistics_frabmeeting_210906.cfm

Definition of "Salary and allowances"

7.36. Salary is the gross salary paid/payable to the individual and 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.

7.37. Salary includes:

- all amounts paid or payable by the NHS foundation trust to the individual, including recharges from any other health body;
- overtime;
- performance related bonuses;
- 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;
- recruitment and retention allowances;
- geographical allowances such as London weighting;
- other allowances to the extent that they are subject to UK taxation; and
- any ex-gratia payments.

7.38. 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;
- 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.

Compensation for loss of office

7.39. 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

7.40. 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

7.41. This will apply to executives only as non-executive directors do not receive any pensionable remuneration.

7.42. The requirement is to disclose cash equivalent transfer values (CETVs) of pensions at the beginning and at the end of the financial year (in bands of £1000), the real increase in the CETVs during the year (in bands of £1000), the value of pensions and automatic lump sums at the year end (in bands of £5,000), and the real increase in year in the value of pensions and automatic lump sums (in bands of £2500).

7.43. 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.

7.44. 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.

7.45. From 2005-06 all the information required in the senior managers' pension table will be provided by NHS Pensions (NHSPA). The request for information from NHS Pensions must be made by the NHS foundation trust by the deadline set by NHS Pensions providing complete information at that time.

7.46. Detailed guidance regarding the end of year procedures for requesting information from the NHS Pension can be found on their website http://www.nhspa.gov.uk/site/index.cfm.

7.47. 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.

NHS Foundation Trust Code of Governance

7.48. The NHS Foundation Trust Code of Governance (the code) was first published in 2006. Following reviews of its application in 2008 and 2009, and also taking account of more recent developments in governance practices specific to NHS foundation trusts, the code was updated in March 2010, to take effect from 1 April 2010.

7.49. The purpose of the code is to assist NHS foundation trust boards in improving their governance practices by bringing together the best practice of public and private sector corporate governance. The code is issued as best practice advice, but imposes some disclosure requirements. NHS foundation trusts are expected to observe the code's disclosure requirements in full.

7.50. Schedule A to the Code lists all of the annual report disclosure requirements but, for ease, the requirements have been included in this chapter. The disclosures in relation to the remuneration committee have been described above. The remaining disclosures are set out below. In some cases, these may overlap with other disclosures in the Directors report.

Board of governors

7.51. The annual report should include a statement of how the board of directors and the board of governors operate, including a high-level statement of which types of decision are to be taken by each of the boards and which are to be delegated to management by the board of directors. *(Code of Governance A.1.1).*

7.52. 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 *(Code of Governance B.1.3).*

7.53. The report should include a statement about the number of meetings of the board of governors and individual attendance by governors and directors *(Code of Governance B.1.3).*

7.54. 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. As each NHS foundation trust must have a register of governors' interests which is available to the public, an alternative disclosure is for the annual report to simply state how members of the public can gain access to the register instead of listing all the interests in the Annual Report.

7.55. A statement should also be included which sets out the steps that the members of the board, in particular the non-executive directors, have taken to understand the views of governors and members *(Code of Governance G.1.5)*.

Board of directors

7.56. 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, deputy chair (where there is one) and the senior independent director during the year, the date of their appointment and how long the appointment is for *(Code of Governance A.1.2);*
- the name(s) of the person(s) occupying the position of chief executive and the composition of the board of directors during the year;
- the names of the non-executive directors which the board considers to be independent, with reasons where necessary *(Code of Governance A.3.1)*

- the number of meetings of the board of directors and those committees and individual attendance by directors *(Code of Governance A.1.2);*

- 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 their areas of expertise and experience *(Code of Governance A.3.4).*

7.57. The report should include a statement about the balance, completeness and appropriateness of the membership of the board *(Code of Governance A.3.4).*

7.58. The report should include a summary of how performance evaluation of the board of directors its committees and its directors has been conducted. *(Code of Governance D.2).*

7.59. The report should disclose details of company directorships or other material interests in companies held by directors which may conflict with their management responsibilities. As each NHS foundation trust must have a register of directors' interests that must be available to the public, an alternative disclosure is for the annual report to simply state how members of the public can gain access to the register instead of listing all the interests in the Annual Report.

7.60. In particular, the report should include a statement in relation to the other significant commitments of the chairman and any changes to them during the year *(Code of Governance C.1.7)*.

Audit Committee

7.61. The names of the chair and members of the audit committee should be disclosed *(Code of Governance A.1.2).*

7.62. The number of meetings and individual's attendance at each should also be disclosed *(Code of Governance A.1.2).*

7.63. A description of the work of the audit committee in discharging its responsibilities *(Code of Governance F.3.3)*.

7.64. Where the board of governors does not accept the audit committee's recommendation on the appointment, reappointment or removal of the external auditor, the audit committee should make a statement in the annual report explaining their recommendation and the reasons for the governors taking a different position *(Code of Governance F.3.5)*.

7.65. An explanation of how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded. *(Code of Governance F.3.8)*.

7.66. An explanation from the directors of their responsibility for preparing the accounts and a statement by the auditors about their reporting responsibilities *(Code of Governance F1.1)* (The auditor's statement should be contained in the audit report).

Nominations Committee

7.67. The names of the chair and members of the nominations committee should be disclosed *(Code of Governance A.1.2).*

7.68. The number of meetings and individual attendance by directors at each should also be disclosed *(Code of Governance A.1.2).*

7.69. A description of the work of the nominations committee, including the process it has used in relation to board appointments. This should include an explanation if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or non-executive director *(Code of Governance C.1.14)*.

Membership

7.70. 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.

7.71. Contact procedures for members who wish to communicate with governors and/or directors *(Code of Governance G.1.4).*

Quality reports

7.72. NHS foundation trusts should include a report on the quality of care they provide within their annual report. The aim of this quality report is to improve public accountability for the quality of care. The quality report must contain (in the following order):

- Part 1. Statement on quality from the Chief Executive of the NHS foundation trust
- Part 2. Priorities for improvement and statements of assurance from the board
- Part 3. Other information
- Annex. Statements from primary care trusts, Local Involvement Networks and Overview and Scrutiny Committees.

7.73. More detail on each of these areas, and template statements, are provided in Annex 2. This annex also provides details of how NHS foundation trusts can adapt their Quality Report to meet the requirement to publish a Quality Account in line with the NHS (Quality Accounts) Regulations 2010.

7.74. Supplementary guidance on the requirements for external assurance on foundation trusts' quality reports will be published in April 2010, following a consultation process which ran from December 2009 to 2 March 2010. This consultation sets out the proposal for foundation trusts to undertake a dry-run (or state of readiness review) of the external assurance proposals for the 2009/10 quality reports, with full implementation of a published audit opinion in the 2010/11 quality reports.

Sustainability/climate change

7.75. NHS foundation trusts will be required to include a section within their annual report and accounts entitled Sustainability/Climate Change. This section of the report will provide:

a) Commentary

- an initial narrative setting out why sustainability reporting is being carried out;
- the overall sustainability strategy of the trust; and
- the governance processes in place to support the management and reporting of

sustainability performance.

b) Summary of performance – non-financial and financial

- The reporting which will be required for 2009/10 annual reports will incorporate data currently submitted by all trusts to the Department of Health, as part of The Estates Returns Information Collection (ERIC). This will include:
    - o waste minimisation and management; and
    - o use of finite resources (water, electricity, gas and other energy consumption).

c) Future priorities and targets

7.76. This will include a commentary, setting out the future priorities and the mechanisms the NHS foundation trust will use to measure progress against objectives. It is anticipated that this strategy will include at least five key areas of focus on how the trust is developing and monitoring sustainable policies and procedures.

7.77. A template commentary and summary performance analysis for this section of the report is provided in Annex 3.

7.78. In 2010/11 Monitor will revisit its advanced requirements for sustainability reporting in light of the outcome of HM Treasury's proposals to introduce sustainability reporting within Annual Reports and Accounts from 2011-12, with a proposed dry run from 2010-11.

Equality and diversity

7.79. NHS foundation trusts will be required to include a section in their annual report on equality and diversity covering:

a) Summary of approach to Equality and Diversity and comment on publication duties

- Each NHS foundation trust will be required to include a statement of its approach to promoting equality and diversity; together with a statement that it has met its relevant publication duties (i.e. published its equality schemes, employment monitoring statistics, and the results of its race equality impact assessment). If the NHS foundation trust has not met its publication duties it should provide details of the plans in place to rectify the shortfalls.

b) Summary of performance - NHS workforce statistics covering:

- age;
- ethnicity;
- gender (including transgender); and
- disability (staff recorded disability).

c) Future priorities and targets

- A commentary should also be provided on the trust's key priorities for diversity, the targets it has, or plans, to put in place and what mechanisms are in place to monitor performance.

7.80. A template commentary and summary performance analysis for this section of the report is provided in Annex 4.

Staff survey

7.81. Each NHS foundation trust will be required to include a section in its annual report on staff survey results covering:

a) Commentary

- Statement of approach to staff engagement - Each NHS foundation trust will be required to include a statement of its approach to staff engagement and what mechanisms are in place to monitor and learn from staff feedback.

b) Summary of performance – results from the NHS staff survey

- NHS foundation trusts will be required to provide a summary of the key findings from the most recent NHS staff survey, i.e. the 2009 survey, with a focus on details of the top 4 and bottom 4 scored answers and comparison to the prior year and national average performance. A table of information will be required setting out as a minimum:
- the response rate*;*
- the top 4 ranked scores; and
- the bottom 4 ranked scores.

7.82. Action plans to address areas of concerns

- The commentary on the key findings from the survey and each NHS foundation trust will include a summary of its plans to address specific areas of concern emerging from staff surveys and any plans to rectify these shortfalls in the short and medium term.

c) Future priorities and targets

- The commentary should include a statement on the key priorities to improve staff feedback it has (or plans) to put in place and what mechanisms are in place to monitor performance.

7.83. A sample template commentary and summary performance analysis is provided in Annex 5.

Regulatory ratings

7.84. NHS foundation trusts should include within their annual report a section detailing performance on their ratings from Monitor together with a comparison of the expectation of the annual rating as detailed in their annual plan. NHS foundation trusts may decide whether to include this section together with the Care Quality Commission's ratings or separately within the annual report.

7.85. The commentary will include a summary of the regulatory performance in the year, focusing on the ratings obtained in comparison to the annual plan risk rating, and actions put in place to rectify shortfalls on performance. Where formal regulatory action has been taken this should be disclosed with the actions taken, or proposed, to address this.

7.86. A template commentary and table of analysis is provided in Annex 6.

Other disclosures in the public interest

7.87. NHS foundation trusts are public benefit corporations and it is considered to be best practice for the annual report to include public interest disclosures on the NHS foundation trust's activities and policies in the areas set out below. NHS foundation trusts should decide where these disclosures are to be included in the annual report. The areas which should be covered are:

- 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;
- information on policies and procedures with respect to countering fraud and corruption;
- a statement describing the better payment practice code, 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.

7.88. It is considered best practice for NHS foundation trusts to disclose:

- performance against the better payment practice code requirement to pay all trade creditors within 30 days (this should be linked to the payment policy disclosures described in Annex 1); and
- management costs calculated in accordance with the Department of Health's definitions (http://www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/FinanceAndPlanning/NHSManagementCosts/fs/en).
- The number of, and average additional pension liabilities for, individuals who retired early on ill-health grounds during the year. The amount entered should be the figure supplied to the NHS foundation trust by NHS Pensions.
- Detailed disclosures in relation to "other income" where "other income" in the notes to the accounts is significant.

7.89. In addition, the *FReM* requires that NHS foundation trusts publish:

- sickness absence data. This is the data which is provided quarterly to the Cabinet Office and published on the NHS foundation trust's website; and
- a statement that the NHS foundation trust has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance; and
- details of Serious Untoward Incidents involving data loss or confidentiality breach (required as part of NHS Information Governance rules).

Statement of accounting officer's responsibilities

7.90. 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 annex 2 to this document.

7.91. Paragraph 25 of Schedule 7 to the 2006 Act states that the NHS foundation trust is to prepare annual accounts, and that such functions of the trust are to be delegated to the Accounting Officer. The NHS Foundation Trust Accounting Officer memorandum further states that it is the chief executive's personal responsibility to prepare the financial statements. In addition, the *Code of Governance (F.1.1)* requires directors to include in the annual report an explanation of their responsibility for preparing the financial statements.

Statement on internal control

7.92. 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 annex 3 to this document, but should be adapted to reflect the particular circumstance of the NHS foundation trust.

7.93. The Annual Report should also include a statement report that the board has conducted a review of the effectiveness of the trust's system of internal controls. (*Code of Governance F.2.1*).

Annex 1 to Chapter 7: Summary of the requirements of Schedule 7 to the Regulations

Disclosure requirement	Statutory Reference
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.	2 Sch 7
Any political or charitable donations should be disclosed. However, it is doubtful whether any such donations would be lawful for an NHS foundation trust.	3 to 5 Sch 7
Any important events since the end of the financial year affecting the NHS foundation trust.	7(1)(a) Sch 7
An indication of likely future developments at the NHS foundation trust.	7(1)(b) Sch 7
An indication of any significant activities in the field of research and development.	7(1)(c) Sch 7
An indication of the existence of branches outside the UK.	7(1)(d) Sch 7
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.	10(3)(a) Sch7
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.	10(3)(b) Sch 7

Policies applied during the financial year for the training, career development and promotion of disabled employees.	10(3)(c) Sch 7
Actions taken in the financial year to provide employees systematically with information on matters of concern to them as employees.	11(3)(a) Sch 7
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.	11(3)(b) Sch 7
Actions taken in the financial year to encourage the involvement of employees in the NHS foundation trust's performance.	11(3)(c) Sch 7
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.	11(3)(d) Sch 7
In relation to the use of financial instruments, an indication of the financial risk management objectives and policies of the NHS Foundation Trust and the exposure of the entity to price risk, credit risk, liquidity risk and cashflow risk, unless such information is not material for the assessment of the assets, liabilities, financial position and results of the entity.	6 Sch 7
Disclosures in respect of policy and payment of creditors.	12 Sch 7

Annex 2 to Chapter 7: Quality report

NHS foundation trusts also have to publish a separate Quality Account each year, as required by the NHS Act 2009, and in the terms set out in the NHS (Quality Accounts) Regulations 2010 ("the Quality Accounts Regulations").

Monitor's annual reporting guidance for the Quality Report incorporates the requirements set out in the Department of Health's Quality Accounts Regulations (denoted by the black text below) and additional reporting requirements set by Monitor (denoted by the red text).

The quality report must contain (in the following order):

Part 1. Statement on quality from the Chief Executive of the NHS foundation trust

- *A statement signed by the Chief Executive summarising the NHS foundation trust's view of the quality of the NHS services that it provided or sub-contracted during 2009/10. The statement must outline that to the best of that person's knowledge the information in the document is accurate.*

Part 2. Priorities for improvement and statements of assurance from the board

Priorities for improvement

- *For quality improvement priorities for 2009/10 identified in the 2008/09 report, trusts should include the performance in 2009/10 against each priority, and where possible the performance in previous years;*

- *At least three priorities for quality improvement for NHS services that the NHS foundation trust intends to provide or sub-contract in 2010/11 – agreed by the board. Trusts must include how progress to achieve the priorities will be monitored, measured and reported. Trusts should also include a rationale for the selection of those priorities and whether/how the views of patients, the wider public and staff were taken into account. The report should identify the quality improvement priorities for 2010/11 with the expectation of reporting on these in future annual reports;*

Statements of assurance from the board

- *Information on the review of services, in the following form of statement:*

> *During 2009/10 the [name of provider] provided and/or sub-contracted [number] NHS services.*
>
> *The [name of provider] has reviewed all the data available to them on the quality of care in [number] of these NHS services.*
>
> *The income generated by the NHS services reviewed in 2009/10 represents [number] per cent of the total income generated from the provision of NHS services by the [name of provider] for 2009/10.*

The data reviewed should aim to cover the three dimensions of quality – patient safety, clinical effectiveness and patient experience - and indicate where the amount of data available for review has impeded this objective;

- *Information on participation in clinical audits and national confidential enquiries, in the following form of statement:*

> *During 2009/10 [number] national clinical audits and [number] national confidential enquiries covered NHS services that [name of provider] provides.*
>
> *During 2009/10 [name of provider] participated in [number as a percentage] national clinical audits and [number as a percentage] national confidential enquiries of the national clinical audits and national confidential enquiries which it was eligible to participate in.*
>
> *The national clinical audits and national confidential enquiries that [name of provider] was eligible to participate in during 2009/10 are as follows: [insert list].*
>
> *The national clinical audits and national confidential enquiries that [name of provider] participated in during 2009/10 are as follows: [insert list].*
>
> *The national clinical audits and national confidential enquiries that [name of provider] participated in, and for which data collection was completed during 2009/10, are listed below alongside the number of cases submitted to each audit or enquiry as a percentage of the number of registered cases required by the terms of that audit or enquiry.*
>
> *[insert list and percentages]*
>
> *The reports of [number] national clinical audits were reviewed by the provider in 2009/10 and [name of provider] intends to take the following actions to improve the quality of healthcare provided [description of actions].*
>
> *The reports of [number] local clinical audits were reviewed by the provider in 2009/10 and [name of provider] intends to take the following actions to improve the quality of healthcare provided [description of actions].*

- *Information on participation in clinical research, in the following form of statement:*

> *The number of patients receiving NHS services provided or sub-contracted by [name of provider] that were recruited during that period to participate in research approved by a research ethics committee was [insert number].*

- *Information on the use of the CQUIN framework, in the following form of statement:*

Either: *A proportion of [name of provider] income in 2009/10 was conditional upon achieving quality improvement and innovation goals agreed between [name of provider] and any person or body they entered into a contract, agreement or arrangement with for the provision of NHS services, through the Commissioning for Quality and Innovation payment framework. Further details of the agreed goals for 2009/10 and for the following 12 month period are available on request from [where further information can be obtained].* Or: *[name of provider] income in 2009/10 was not conditional on achieving quality improvement and innovation goals through the Commissioning for Quality and Innovation payment framework because [insert reason].*

NHS foundation trusts may choose to expand further upon their agreed goals and the rationale behind them (e.g. how they fit with local/regional strategies).

NHS foundation trusts should include a statement which includes a monetary total for the amount of income in 2009/10 conditional upon achieving quality improvement and innovation goals, and a monetary total for the associated payment in 2009/10.

- *Information relating to registration with the Care Quality Commission (CQC) and periodic/special reviews, in the following form of statement:*

[name of provider] is required to register with the Care Quality Commission and its current registration status is [insert description]. [Name of provider] has the following conditions on registration [insert conditions where applicable]. *The Care Quality Commission (has/has not) taken enforcement action against [name of provider] during 2009/10.*

Either: *[name of provider] is subject to periodic review by the Care Quality Commission and the last review was on [date]. The CQC's assessment of the [name of provider] following that review was [insert assessment].* *[name of provider] intends to take the following actions to address the points made in the CQC's assessment [insert details of actions]*. *[name of provider] has made the following progress by 31 March 2010 in taking such action [insert description of progress].*

Or:

[name of provider] is not subject to periodic review by the Care Quality Commission.

Either:

[name of provider] has participated in special reviews or investigations by the Care Quality Commission relating to the following areas during 2009/10 [insert details of special reviews and//or investigations]. [name of provider] intends to take the following action to address the conclusions or requirements reported by the CQC [insert details of action].

[name of provider] has made the following progress by 31 March 2010 in taking such action [insert description of progress].

Or:

[name of provider] has not participated in any special reviews or investigations by the CQC during the reporting period.

- *Information on the quality of data, in the following form of statement:*

Either:

[name of provider] submitted records during 2009/10 to the Secondary Uses service for inclusion in the Hospital Episode Statistics which are included in the latest published data. The percentage of records in the published data:

- which included the patient's valid NHS Number was: [percentage] for admitted patient care; [percentage] for outpatient care; and [percentage for accident and emergency care.

- which included the patient's valid General Practitioner Registration Code was: [percentage] for admitted patient care; [percentage] for outpatient care; and [percentage] for accident and emergency care.

Or:

[name of [provider] did not submit records during 2009/10 to the Secondary Uses service for inclusion in the Hospital Episode Statistics which are included in the latest published data.

[Name of provider] score for 2009/10 for Information Quality and Records Management, assessed using the Information Governance Toolkit was [percentage].

Either:

[name of provider] was subject to the Payment by Results clinical coding audit during the reporting period by the Audit Commission and the error rates reported in the latest published audit for that period for diagnoses and treatment coding (clinical coding) were [percentages].

Or:

[name of provider] was not subject to the Payment by Results clinical coding audit during the reporting period by the Audit Commission.

NHS foundation trusts should include an explanatory note for clinical coding stating:

- *that the results should not be extrapolated further than the actual sample audited; and*
- *which services were reviewed within the sample.*

Part 3. Other information

- *An overview of the quality of care offered by the NHS foundation trust based on performance in 2009/10 against indicators selected by the board in consultation with stakeholders, with an explanation of the underlying reason(s) for selection. The indicator set selected must include:*

  - *at least 3 indicators for patient safety;*
  - *at least 3 indicators for clinical effectiveness; and*
  - *at least 3 indicators for patient experience.*

  For those indicators selected by the NHS foundation trust, the report should refer to historical data and benchmarked data where available, to enable readers to understand progress over time and performance compared to other providers. References of the data sources for the indicators should be stated, including whether the data is governed by standard national definitions.

  Where these indicators have changed from the indicators used in the 2008/09 report, the NHS foundation trust should outline the rationale for why these indicators have changed.

  Where the quality indicators are the same as those used in the 2008/09 report and refer to historical data, the data reported should be checked to ensure consistency with the 2008/09 report. Where inconsistencies exist, NHS foundation trusts are required to include an explanatory note on any changes in the basis of calculation.

- *Performance against key national priorities and National Core Standards*

  An overview of performance in 2009/10 against the key national priorities from the Department of Health's Operating Framework and against the Department of Health's National Core Standards. This must include:

- *performance against the relevant indicators and performance thresholds set out in Appendix B of the Compliance Framework; and*

- *the number of core standards the NHS foundation trust has declared to the Healthcare Commission/Care Quality Commission that it is compliant with (displayed against the total number of core standards).*

- *NHS foundation trusts can also choose to use Part 3 to include other additional content relevant to the quality of NHS services.*

<u>Annex. Statements from primary care trusts, Local Involvement Networks and Overview and Scrutiny Committees.</u>

- *NHS foundation trusts must send copies of their Quality Reports to their relevant lead commissioning primary care trusts (PCTs), Local Involvement Networks (LINks) and Overview and Scrutiny Committees (OSCs) for comment prior to publication, and should include these comments in their published Quality Reports.*

- *The lead commissioning PCTs will have a legal obligation to review and comment, while LINks and OSCs will be offered the opportunity to comment on a voluntary basis. There are specific timeframes for seeking and receiving responses.*

Please note this section has been renamed ***Annex*** *to be consistent with the Quality Accounts regulations.*

Publishing a Quality Account to comply with the Quality Accounts Regulations

NHS foundation trusts can adapt their Quality Report to meet the requirement to publish a Quality Account (which is done by uploading it to the NHS Choices website). NHS foundation trusts must then decide whether to include Monitor's additional reporting requirements in the Quality Account uploaded onto NHS Choices. Therefore NHS foundation trusts have two options in publishing their Quality Account as follows:

- EITHER -

- *upload the entire Quality Report as it is, without adapting or amending it, as the trust's Quality Account, if they wish to include Monitor's additional reporting requirements;*

- OR –

- *remove Monitor's additional reporting requirements from the Quality Report before uploading the resulting Quality Account onto NHS Choices (this would be done by removing the sections marked by the red text below).*

The reporting deadline for publishing the Quality Account is 30 June compared with the Annual Reporting deadline of 8 June. Please also note that whichever route NHS foundation trusts take to producing a Quality Account, the requirements for the Annex (Statements from PCTs, LINks and Overview and Scrutiny Committees) apply only to the information required under the Quality Accounts Regulations.

Annex 3 to Chapter 7: Sustainability/climate change report – template commentary and data section

Commentary

- initial narrative setting out why sustainability reporting is being carried out;
- the overall sustainability strategy of the trust (or plans in place to develop a sustainability strategy); and
- the governance processes in place to support the management and reporting of sustainability performance for the current year.

Summary performance

- *Commentary on performance together with prior year comparatives if available.*

Note example:

Area		**Non-financial data (applicable metric)**	**Non-financial data (applicable metric)**		**Financial data (£k)**	**Financial data (£k)**
		2008/09	**2009/10**		**2008/09**	**2009/10**
Waste minimisation and management	- Absolute values for total amount of waste produced by the trust. - Methods of disposal (optional).	X X	X X	- Expenditure on waste disposal.	X	X
Finite Resources	- Water - Electricity - Gas - Other energy consumption.	X X X X	X X X X	- Water - Electricity - Gas - Other energy consumption.	X X X X	X X X X

Comparative data will be included where available.

Future priorities and targets

- Future priorities; these will include the mechanisms to measure progress against these. It is anticipated that this strategy will include at least five key areas of focus on how the trust is developing and monitoring sustainable policies and procedures.

Annex 4 to Chapter 7: Equality and diversity report - template commentary and data section

Commentary

- Statement of approach to equality and diversity:
    - o Who leads on equality and diversity at the trust; and
    - o How is performance monitored.
- Statement of compliance with publication duties; and
- Action plans and timeframe to address any shortfalls.

Summary of performance – workforce statistics

- Commentary on analysis of staff and membership.

Note example: **Equality and diversity**

	Staff 2008/09	%	Staff 2009/10	%	Membership 2008/09	%	Membership 2009/10	%
Age								
0-16	X		X		X		X	
17-21	X		X		X		X	
22+	X		X		X		X	
Ethnicity								
White	X		X		X		X	
Mixed	X		X		X		X	
Asian or Asian British	X		X		X		X	
	X		X		X		X	
Black or Black British	X		X		X		X	
Other								
Gender								
Male	X		X		X		X	
Female	X		X		X		X	
Trans-gender	X		X		X		X	
Recorded Disability								

NOTE: This example can be amended to include additional classifications as required. In addition, the age classifications can be amended to be consistent with the trust's internal collection.

Priorities and targets going forward

- Statement of key priority areas;
- Performance against priority areas (against targets set);
- Monitoring arrangements; and
- Future priorities and how they will be measured.

Annex 5 to Chapter 7: Staff survey report - template commentary and data section

Commentary

Statement of approach to staff engagement and feedback arrangements in place and key priorities and targets.

Summary of performance - NHS staff survey

Details of the key findings from the NHS staff survey from 2009, i.e.

- response rate compared with prior year;
- areas of improvement from the prior year and deterioration;
- top 4 ranking scores;
- bottom 4 ranking scores;
- key areas of improvement;
- summary details of any local surveys and results (if applicable); and
- areas of concern and action plans to address.

Note example: **Staff survey**

	2008/09		2009/10		Trust Improvement/ Deterioration
Response rate	Trust	National Average	Trust	National Average	
	X%	X%	X%	X%	Increase/decrease in % points

	2008/09		2009/10		Trust Improvement/ Deterioration
Top 4 Ranking Scores	Trust	National Average	Trust	National Average	
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points

	2008/09		2009/10		Trust Improvement/ Deterioration
Bottom 4 Ranking Scores	Trust	National Average	Trust	National Average	
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points

Future priorities and targets

- Statement of key priority areas;
- Performance against priority areas (against targets set);
- Monitoring arrangements; and
- Future priorities and how they will be measured.

Annex 6 to Chapter 7: Regulatory ratings report - Template commentary and table of analysis

Commentary

- Explanation of ratings;
- Summary of rating performance throughout the year and comparison to prior year;
- Analysis of actual quarterly rating performance compared with expectation in the annual plan;
- Comparison to prior year;
- Explanation for differences in actual performance versus expected performance at the time of the annual risk assessment; and
- Details and actions from any formal interventions.

Table of analysis

	Annual Plan 2008/09	**Q1 2008/09**	**Q2 2008/09**	**Q3 2008/09**	**Q4 2008/09**
Financial risk rating					
Governance risk rating					
Mandatory services					

	Annual Plan 2009/10	**Q1 2009/10**	**Q2 2009/10**	**Q3 2009/10**	**Q4 2009/10**
Financial risk rating					
Governance risk rating					
Mandatory services					

Annex 7 to Chapter 7: Model statement of accounting officer's responsibilities

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

The NHS Act 2006 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").

Under the NHS Act 2006, Monitor has directed the [name] NHS foundation trust to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of [name] NHS foundation trust and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *NHS Foundation Trust Annual Reporting Manual* and in particular to:

- observe the Accounts Direction issued by Monitor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the NHS foundation trust Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

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 20xx

Annex 8 to Chapter 7: Model statement on internal control

[The wording which is not in square brackets in this pro forma statement on internal control (SIC) should be replicated in every SIC, the words in square brackets should be amended as appropriate to the body in question.]

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. I also acknowledge my responsibilities as set out in the NHS Foundation Trust Accounting Officer Memorandum.

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. ***Explicitly include how risks to data security are being managed and controlled as part of this process***. ***Include a brief description of the organisation's major risks, separately identifying in-year and future risks, how they are/will be managed and mitigated and how outcomes are/will be assessed.***]

[Describe key ways in which risk management is embedded in the activity of the organisation. ***For example, set out the ways in which equality impact assessments are integrated into core trust business***.]

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

The Foundation Trust is fully /is not fully compliant with the core Standards for Better Health.

As an employer with staff entitled to membership of the NHS Pension Scheme, control

measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

Control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with.

The Foundation Trust has undertaken risk assessments and Carbon Reduction Delivery Plans are in place in accordance with emergency preparedness and civil contingency requirements, as based on UKCIP 2009 weather projects, to ensure that this organisation's obligations under the Climate Change Act and the Adaptation Reporting requirements are complied with.

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 NHS foundation trust 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.]

Conclusion

[state either that no significant internal control issues have been identified or make specific reference to those significant internal control issues which have been identified in the body of the SIC above]

Signed………………..

Chief Executive Date: xx June 20xx

Monitor, 4 Matthew Parker Street, London SW1H 9NP

Telephone: 020 7340 2400
Email: enquiries@monitor-nhsft.gov.uk
Website: www.monitor-nhsft.gov.uk

Publication code: IRG 06/10