

Changes to the NHS foundation trust annual reporting manual 2016/17: consultation



About NHS Improvement

NHS Improvement is responsible for overseeing foundation trusts, NHS trusts and independent providers. We offer the support these providers need to give patients consistently safe, high quality, compassionate care within local health systems that are financially sustainable. By holding providers to account and, where necessary, intervening, we help the NHS to meet its short-term challenges and secure its future.

NHS Improvement is the operational name for the organisation that brings together Monitor, NHS Trust Development Authority, Patient Safety, the National Reporting and Learning System, the Advancing Change team and the Intensive Support Teams.

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1. Background

All NHS foundation trusts must publish annual reports and accounts. Clear and transparent reporting helps a trust – as well as its governors, members and patients – understand and scrutinise the year's operations and outcomes.

As the regulator, we direct the form in which the annual report and accounts should be prepared, the information which should be included and the methods and principles that should be followed in their preparation. In determining the form and content of the accounts, we must, by statute, aim to ensure the accounts present a true and fair view.

To achieve this, we issue the *NHS foundation trust annual reporting manual (FT ARM)* every year. This contains the requirements NHS foundation trusts need to follow when preparing their annual reports and accounts.

For 2016/17 we worked with the Department of Health (DH) to merge the accounting requirements of the *FT ARM* with the former *DH Manual for accounts*. The resulting document – the *DH group accounting manual (DH GAM)* – has now been [published](#).¹

Monitor continues to set the legal accounts direction for NHS foundation trusts, and this is included in the *FT ARM*. However, the detailed accounting guidance for foundation trusts can now be found in the *DH GAM* and so the previous Chapters 2 to 6 of the *FT ARM* have been deleted. The *FT ARM* continues to provide the direction over foundation trusts' annual reports and the supporting guidance.

In forming NHS Improvement, Monitor and the NHS Trust Development Authority are aiming to align processes for NHS trusts and foundation trusts wherever possible. As part of this we have reviewed some historic financial presentation differences between foundation trust accounts and those for other NHS bodies. We are proposing some amendments to foundation trust financial reporting in 2016/17. Given that the *FT ARM* (and *DH GAM*) requires foundation trust accounts to follow the format of the foundation trust consolidation (FTC) summarisation schedules issued by NHS Improvement, these proposed changes are also part of this consultation.

2. This consultation

This consultation relates to the *FT ARM* for 2016/17. The consultation period has been set for three weeks. This timescale reflects the limited scope and straightforward nature of the proposed changes. The 2016/17 *FT ARM* will be

¹ <https://www.gov.uk/government/publications/department-of-health-group-accounting-manual-2016-to-2017>

republished once we have received and reviewed consultation responses. Parts of the document are subject to the Department of Health's approval.

This document summarises the principal changes being made in the draft *FT ARM* 2016/17, which is available [here](#) on our website. All substantive changes are shown in bold italics.

Please send your responses by **5pm on Friday 18 November 2016**.

3. Principal changes proposed in 2016/17

A. Annual report: staff costs

HM Treasury has clarified its intention as part of its 'simplifying and streamlining' agenda that the detailed disclosure of staff costs should now appear in the staff report in the annual report rather than the accounts. However, some disclosure of staff costs will still be required in the accounts to comply with accounting standards. While we did not implement this change in the *FT ARM* for 2015/16, we are required to do so for 2016/17.

This means the previous staff costs note in the accounts (in the format of that in the FTC schedules, without the counterparty columns) is now included in the annual report: staff report. Please refer to paragraph 2.79 of the draft *FT ARM*.

In the accounts the staff costs note will be more simplified and not include the split between 'permanent' and 'other'. This is covered in paragraphs 5.60 to 5.62 of the *DH GAM 2016/17*. This will also be seen in the accounts template for foundation trusts when issued by NHS Improvement.

Consultation question 1:

While NHS Improvement is required to implement the change that moves the detailed staff costs disclosure to the annual report, do you have any comments on how we have implemented this requirement in the *FT ARM*?

B. Annual report: oversight disclosures

NHS foundation trusts have previously been required to disclose key information – including ratings – in applying our regulatory framework to the trust. The previous disclosure relating to Monitor's Risk Assessment Framework has now been updated for NHS Improvement's Single Oversight Framework. This disclosure will require more context from the trust as the new regime's metrics and outputs are structured differently from a governance risk rating under the old regime.

Refer to paragraphs 2.88 to 2.89 and Annex 3 to Chapter 2 of the draft *FT ARM*.

Consultation question 2:

Do you have any comments on our proposals for how foundation trusts should disclose the application of NHS Improvement's Single Oversight Framework to the trust?

C. Annual report: more minor changes**Staff survey disclosure**

The *FT ARM* requires foundation trusts to include in their annual report a summary of the results from the most recent NHS staff survey. We have worked with NHS England to update our example disclosure to better reflect the format in which the staff survey results are presented to trusts. This should make it easier to complete the disclosure in the annual report.

Refer to paragraphs 2.80 to 2.81 and Annex 2 to Chapter 2 of the draft *FT ARM*.

Quality reports

The *FT ARM* previously contained our additional requirements for quality reports which are in addition to the quality accounts requirements. We publish a separate document showing the combined set of requirements. The sector has told us the combined set of requirements is more helpful, but that it should be published earlier. We have removed the quality report additional requirements from this manual and are working to publish the detailed requirements for quality reports document earlier for 2016/17 than was the case in 2015/16.

Sustainability reporting

The *FT ARM* has previously included sustainability reporting as a voluntary rather than mandatory component of the annual report. However, the NHS standard contract includes a requirement for providers to report on sustainability in their annual report. We have included a reference to this requirement in the *FT ARM*.

Refer to paragraph 2.4 of the draft *FT ARM*.

Additional guidance from May 2016 update

In May 2016 we published an update to the *FT ARM 2015/16*, which contained additional guidance. This has now been incorporated into the *FT ARM 2016/17* and is unchanged. Please refer to these paragraphs of the draft *FT ARM*:

- paragraphs 2.53 to 2.55: remuneration report guidance for senior managers with additional duties
- paragraphs 2.103 to 2.108: guidance on the application of the Modern Slavery Act 2015 to NHS bodies.

Consultation question 3:

Do you have any comments on the minor changes to the annual report relating to staff survey disclosures, quality reports, sustainability reporting or additional guidance?

D. Financial reporting: Statement of Comprehensive Income

NHS foundation trusts' accounts must follow the format in the FTC template.

Paragraph 1.6 of the draft *FT ARM* and paragraphs 4.4 to 4.5 of the *DH GAM 2016/17* explain the extent of discretion that foundation trusts have over the format of their accounts. In preparing the primary statements, foundation trust accounts must follow the format in the FTCs (except for nil rows).

We have reviewed areas of commonality and difference in NHS trust and foundation trust financial reporting. There are two key areas of historic presentational difference in the Statement of Comprehensive Income:

- The FTCs have previously recognised gains and losses on disposal of assets in operating income and expenditure respectively. For other NHS bodies these are recognised as a non-operating item.
- The FTCs have previously recognised reversals of impairments in income. For other NHS bodies these are netted off impairments in expenditure.

In seeking to align this treatment, we have considered accounting standards and current practice: see Table 1 below.

Table 1: Accounting standards and current practice

Area	Accounting standards	Treatment in 2015/16 NHS trust monitoring and accounts	Treatment in 2015/16 FT monitoring	Treatment in 2015/16 FT accounts (FTC)	Treatment in whole of government accounts
Gains and losses on disposal of assets	IAS 16 para 68 says gain or loss is recognised in P&L and that gains are not 'revenue'. In FTC, revenue has been considered to be 'income from activities', hence inclusion in 'other operating income'.	Netted together as a non-operating item	Netted together in the 'non-operating income' section	Both operating. Gains presented in other operating income, losses in operating expenses.	Netted together as a non-operating item
Impairment reversals taken to I&E	"Recognised in profit and loss"	Operating expenses (netted off impairments)	Operating expenses (netted off impairments)	Other operating income	Operating expenses (netted off impairments)

We note that for both these areas, foundation trust accounts are currently the outlier.

We are proposing to amend the foundation trust accounts presentation in both these areas to align it with the approach used in other NHS accounts for reasons given below.

Gains and losses on disposal of assets

As the disposal of assets is not a core part of an NHS provider's operations, we believe that in seeking to achieve consistency of treatment, moving these to be non-operating is more defensible than adjusting NHS trust treatment to make them operating. We therefore propose that 'gains and losses on disposal of assets' becomes a non-operating item in foundation trust accounts. This has no impact on the overall surplus/deficit nor on how monitoring metrics are calculated by NHS Improvement. It will change the operating surplus/deficit, but whether this is positive or negative will depend on whether gains exceed losses for any particular period for a foundation trust.

Impairment reversals

We note that in other areas of accounting, a reversal is recognised in the same place as the original charge, such as allowances for bad debts. Based on this, in seeking to achieve consistency of treatment, we believe that moving impairment reversals to be netted off expenditure is more defensible than changing NHS trust accounts to require them to be recognised in income. This will not change overall surplus/deficit or operating surplus/deficit for foundation trusts.

The prior year column in the Statement of Comprehensive Income 2016/17 would need restating on the same basis.

If adopted, the proposed changes will be reflected in the FTC template issued for month 9 2016/17. This would also be seen in the indicative accounts template released for information at month 9.

Consultation question 4:

Do you have any comments on our proposal to amend the presentation of impairment reversals and gains and losses on the disposal of assets in foundation trust accounts for 2016/17?

E. Other changes in the *FT ARM*

Other changes made to the *FT ARM* for 2016/17 are:

- Throughout the document, references to Monitor have been updated to NHS Improvement, with two exceptions:

- where the *FT ARM* refers to us discharging a legal power (such as issuing a direction), the legal power remains with Monitor
- where the *FT ARM* refers to a document that has not been republished by NHS Improvement, we continue to refer to the document issued by Monitor.
- Paragraphs 1.1 to 1.5 have been restructured to separate references to directions over annual accounts and annual reports.
- Paragraph 1.7 has been added to show the materials we will issue for NHS foundation trusts that accompany the detail in the *DH GAM*.
- The accounts timetable previously included in Chapter 1 of the *FT ARM* has been removed, as in previous years Monitor supplemented this with a detailed timetable letter that provided additional information on submissions as a definitive reference source for foundation trust finance teams. We will issue a similar letter for 2016/17 in early November. As it will include other items not covered by the *FT ARM*, we have removed the accounts timetable from Chapter 1 to avoid having partial guidance in two places. Our timetable letter will contain all submission information. This is clarified in paragraph 1.12.
- For NHS trusts authorised as foundation trusts, the *FT ARM* previously ‘strongly recommended’ that separate annual report documents be prepared for the two periods rather than combined into one. As part of the *DH GAM* consultation, feedback was provided that trusts that tried to combine annual reports into one encountered difficulty and ultimately found them harder to prepare. Therefore in line with the revised position in the *DH GAM*, we have amended paragraph 1.31 to state that a foundation trust in this position should prepare two separate annual reports and accounts for the two operating periods.
- Guidance in Chapter 1 on the practical arrangements and content for preparing accounts for foundation trusts in their final period of operation has now been moved to the *DH GAM* and removed from the *FT ARM*.
- The formal directions in Annex 1 to Chapter 1 have been revised to refer to the *DH GAM*. We have also tidied up other referencing in the directions, and to provide a complete list of the required signatures across the annual report and accounts. Given these are not changes of substance, and that items have been moved between the directions, changes to the directions are not shown in bold italics.
- The annex to Chapter 1 dealing with how a foundation trust should lay its annual report and accounts before Parliament has now been reproduced in the *DH GAM* (as it can be used by other Department of Health bodies) and so

removed from the *FT ARM*. Paragraphs 1.16 to 1.17 of the *FT ARM* retain the requirement to lay before Parliament, and refer to the *DH GAM* for further guidance.

- The FTC completion certificate in Annex 2 to Chapter 1 has been updated to refer to detailed guidance in the *DH GAM*.
- Paragraph 2.45: the single total figure table format has been updated to add a row for the units of disclosure to aid clarity.
- Paragraph 2.55: the links to webpages have been updated, following changes to the Information Commissioner's Office and HM Treasury web archive websites.
- Paragraph 2.60: this has been updated to state that Column B of the single total figure table for taxable benefits should be disclosed in £s but to the nearest £100. This should be easier to understand than a disclosure in units of £100.
- Paragraph 2.79: additional guidance has been added to support the disclosure of staff numbers.
- Annex 7 to Chapter 2, which describes off-payroll disclosure requirements, has been updated to reflect minor updates in HM Treasury's most recent guidance. There are no changes of substance compared to the previous *FT ARM*.

Consultation question 5:

Do you have any comments on the other changes listed or any other amendments?

4. Consultation questions

- 1) While NHS Improvement is required to implement the change that moves the detailed staff costs disclosure to the annual report, do you have any comments on how we have implemented this requirement in the *FT ARM*?
- 2) Do you have any comments on our proposals for how foundation trusts should disclose the application of NHS Improvement's Single Oversight Framework to the trust?
- 3) Do you have any comments on the minor changes to the annual report relating to staff survey disclosures, quality reports, sustainability reporting or additional guidance?

- 4) Do you have any comments on our proposal to amend the presentation of impairment reversals and gains and losses on the disposal of assets in foundation trust accounts for 2016/17?
- 5) Do you have any comments on the other changes listed or any other amendments?

5. Responding to the consultation

We are keen to hear your views on the details of the proposals. You can find the draft *NHS foundation trust annual reporting manual 2016/17* [here](#) on our website. Changes are shown in bold italics.

Please complete the consultation response form on our website and return it to FT.Accounts@improvement.nhs.uk by the date below. We will consider the responses in finalising the *FT Annual Reporting Manual* for 2016/17. If you do not have web or email access, please write to us at:

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The consultation closes at **5pm** on **Friday 18 November 2016**.



Improvement

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This publication can be made available in a number of other formats on request.

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