



Improvement

**NHS foundation
trust annual
reporting manual
2016/17**

Consultation response

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About NHS Improvement

Since 1 April 2016, Monitor and the NHS Trust Development Authority have been operating as a single integrated organisation known as NHS Improvement. This document is published in exercise of functions conferred on Monitor. In this document, 'NHS Improvement' means Monitor, unless the context otherwise requires.

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 that 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 is now 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.

2. The consultation and overview of responses

We consulted on proposed changes to allow for feedback from interested parties before finalising the FT ARM 2016/17. We summarise below the responses to questions in the consultation.

We received 20 responses to the consultation: 14 (70%) from NHS foundation trusts and the rest from accounting firms and other bodies. Appendix A contains a full list of respondents, excluding those organisations that asked us to keep their identity

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

confidential. To maintain confidentiality, this document does not identify individual respondents.

Not all respondents answered all the consultation questions. The response summaries set out below for each question include relevant comments from respondents, even where they chose not to answer the specific question posed. Some respondents left questions blank. We considered all comments. Paragraph references refer to the [revised FT ARM](#) published alongside this document.

We are grateful to all respondents. We have considered your feedback carefully and it has influenced our decisions on the proposals to be adopted.

3. Detail of consultation questions and responses

A. Annual report: staff costs

HM Treasury 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 foundation trust consolidation (FTC) schedules, without the counterparty columns) is now included in the annual report: staff report.

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?

Summary of responses

Responses to this question can be summarised as:

- supportive: 4
- no clear opinion: 5
- against: 0
- no relevant comments: 11.

An accounting firm queried whether the analysis of staff costs in the staff report would be subject to audit. The HM Treasury *Financial Reporting Manual (FReM)*² (paragraph 5.3.4) states that it is. We have made this clearer in the FT ARM.

The accounting firm also queried whether the reference in paragraph 2.21 to the analysis of staff numbers being subject to audit also includes the disclosure of the number of male and female directors and staff. The answer is that it does not: when paragraph 2.21 states 'analysis of staff numbers', it is referring to the bullet point titled that in paragraph 2.79.

One respondent queried whether it would still be possible to link an accounts template to the FTC version of the staff costs note. The answer is yes: the accounts requirement is for a more summarised version of the information in the FTC note and the totals are available. NHS Improvement's account template for foundation trusts will include this staff costs note, and will also include a detailed version on a separate tab, linked to the FTC, for ease of completing the annual report.

One respondent suggested that the footnote linked to paragraph 2.79, which refers to the requirements for the accounts disclosure being provided elsewhere, should refer to the DH GAM and not just our accounts template. We agree and have this amended this.

NHS Improvement's decision

Given no dissenting views were expressed, we have implemented the proposal that was consulted on.

We made two further amendments:

- Paragraph 2.21: in line with the FReM, the list of parts of the accountability report that are subject to audit has been updated to include the analysis of staff costs in the staff report.
- Paragraph 2.79, footnote 12: reference to DH GAM added in providing detail of accounts requirement.

B. Annual report: oversight disclosures

NHS foundation trusts have previously been required to disclose key information and ratings relating to our regulatory framework. The previous disclosure relating to Monitor's *Risk Assessment Framework (RAF)* has now been updated for NHS Improvement's *Single Oversight Framework (SOF)*. 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.

² www.gov.uk/government/publications/government-financial-reporting-manual-2016-to-2017

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?

Summary of responses

Responses to this question can be summarised as:

- supportive: 5
- accepting the proposal but some comments: 3
- no clear opinion: 1
- against: 0
- no relevant comments: 11.

No dissenting views were expressed and most of those who responded to the question commented that they felt the proposed disclosure was reasonable.

Two respondents queried that while the template disclosure explained that comparative information under the RAF was not being presented relating to finance, it was not clear whether information for the first two quarters of 2016/17 under the RAF should be presented. We accept this comment and have updated the template wording to state that information for the prior year and first two quarters is not being presented.

Three respondents queried the timeliness with which year-end segmentation information would be available to support preparation of the annual report. The overall segmentation for the trust should be considered 'live' rather than quarterly and so will only be accurate at a point in time. We have expanded the proposed disclosure to include that date at which the segment information is provided by the trust and to highlight to the reader that current segmentation information is available on [NHS Improvement's website](https://improvement.nhs.uk/).³

NHS Improvement's decision

Given no dissenting views were expressed, we have implemented the proposal that was consulted on.

We made two further amendments:

- Annex 3 to chapter 2: template wording now explains that information for the first two quarters for finance is not being presented.
- Annex 3 to chapter 2: template wording now includes a sentence for the date at which the information is presented and a reference to the NHS Improvement website.

³ <https://improvement.nhs.uk/>

C. Annual report: more minor changes

Staff survey disclosure

We worked with NHS England to update our example staff survey disclosure to better reflect the format in which the staff survey results are presented to trusts.

Quality reports

We have removed the quality report additional requirements from the FT ARM.

Sustainability reporting

We have included a reference to the sustainability reporting requirement in the FT ARM, as in the NHS standard contract.

Additional guidance from May 2016 update

Other pieces of extra guidance were also added to the FT ARM based on the May 2016 update. Details are in the consultation document.

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?

Summary of responses

Responses to this question can be summarised as:

- supportive: 9
- accepting the proposal but some comments: 4
- no clear opinion: 3
- against: 0
- no relevant comments: 4.

Sustainability reporting

In line with our note of clarification issued to foundation trusts after launching the consultation, we have improved the wording of the requirement to make clearer that it is *progress against* the sustainable development plan that should be reported in the annual report rather than the plan itself. This requirement comes from the NHS standard contract.

A number of respondents specifically expressed their support for this change which resolves previous uncertainty regarding sustainability reporting in the annual reports for foundation trusts. Two respondents asked if we intend to mandate a specific format for this disclosure in foundation trusts' annual reports. We do not intend to; foundation trusts can use their own judgement for what is appropriate. The link in paragraph 2.4 provides a reporting template issued by the Sustainable Development Unit which provides an example disclosure that trusts may wish to consider.

In addition, a cross reference to the environmental reporting in the performance analysis part of the annual report has been added to paragraph 2.4 of the FT ARM.

Additional guidance from May 2016 update

A number of respondents commented that the additional guidance was helpful, in particular the additional guidance on remuneration disclosures for medical directors or similar staff. One respondent suggested that our guidance should acknowledge that a full split of the single total figure table information between the senior manager and medical elements of the remuneration may not be available. We have clarified this in the guidance.

Regarding our guidance on the application of the Modern Slavery Act 2015, one accounting firm questioned the reference to auditors in the sentence "*It is ultimately for individual NHS bodies, in discussion with their auditors, to consider whether they have activities that require them to be treated as a commercial organisation...*". We agree with the firm that this is not 'subject to audit' and this judgement does not require audit 'sign off' but we do not think the wording in the FT ARM implies this. Accounting firms may have experience of other clients applying this judgement and we think suggesting foundation trusts might reach their conclusion "in discussion with their auditors" is reasonable: it makes clear that the judgement is the trust's.

NHS Improvement's decision

Given no dissenting views were expressed, we have implemented the proposals that were consulted on.

We made two further amendments:

- Paragraph 2.4: wording improved to make clearer that it is *progress against* the sustainable development plan that is being disclosed, and cross-reference to paragraph 2.18 added.
- Paragraph 2.54: clarification added that a footnote providing more information on the remuneration of the medical director or similar staff need not include detail of the individual components of the single total figure table.

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.

We reviewed areas of commonality and difference in NHS trust and foundation trust financial reporting and summarised the two key areas of historic presentational difference in the Statement of Comprehensive Income. See the consultation for details.

We have aligned the approach for foundation trusts with those used in other NHS accounts. This will require the prior year column in the Statement of Comprehensive Income 2016/17 to be restated on the same basis. The judgements behind the proposal are in the consultation document.

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?

Summary of responses

Responses to this question can be summarised as:

- supportive: 12
- no relevant comments: 8.

NHS Improvement's decision

Given no dissenting views were expressed, we have implemented the proposals that were consulted on and no amendments have been made. These have also been reflected in the month 9 FTC and draft accounts template.

E. Other changes in the FT ARM

We made other more minor changes to the FT ARM for 2016/17. These include minor changes and developments arising from accounting standards in 2016/17 as well as those arising from developments in NHS Improvement's regulatory regime. See the consultation document for a list.

Consultation question 5:

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

Summary of responses

Responses to this question can be summarised as:

- commenting on changes in the draft FT ARM: 7
- no relevant comments: 13.

One accounting firm queried the wording in paragraph 1.6 that the primary statements “should follow the presentational form set out in the summarisation schedules for foundation trusts issued by NHS Improvement”, suggesting it represented a tightening of our requirements. This was not our intention, but we do intend to make clearer that amendments such as taking items outside operating expenses are not appropriate. We have therefore added more detail to this paragraph, including stating that immaterial lines may be aggregated.

One respondent disagreed with the removal of the accounts timetable and Parliamentary laying instructions from the FT ARM, preferring everything to be in one place. We recognise and are mindful of this concern. We have now published a separate [timetable letter](#)⁴ for foundation trusts. This includes everything previously included in the FT ARM, as well as further dates and information that would not be suited to the FT ARM. We believe this will be more helpful as one comprehensive timetable document. The instructions for laying documents before Parliament have been taken from the FT ARM and are now included in the DH GAM as they are applicable to other DH group bodies.

One accounting firm pointed out that while the template certificate on the summarisation schedules (FTCs) in annex 2 to chapter 1 has for many years required signing by both the chief executive and finance director, the wording in paragraph 1.15 suggested it was one or the other. This has now been corrected. We also improved the consistency of language between paragraph 1.15 and the annex, by referring to the chief executive (rather than accounting officer) in both places.

One accounting firm queried the requirements for the disclosures relating to payment performance and interest on commercial debt: the FT ARM includes these in the directors’ report but the DH GAM still says that foundation trusts can include these in the accounts or annual report. We have improved this wording in paragraph 2.22 of the FT ARM: it now states that the disclosures should be included in the directors’ report unless they are included in the accounts.

Updates to the FT ARM not arising from the consultation

- HM Treasury published the 2016/17 Public Expenditure System (PES) paper dealing with 2016/17 annual reports requirements in late December 2016.

⁴ https://improvement.nhs.uk/documents/539/NHS_Improvement_FT_timetable_letter_2016-11-15.pdf

There were no changes compared to the prior year for the disclosure requirements for fair pay multiple or off-payroll arrangements which are presented in annexes 7 and 8 to chapter 2 of the FT ARM respectively.

- HM Treasury revised its 2016/17 FReM in December 2016. Corresponding updates made to chapter 2 of the FT ARM are listed as part of the box below.
- There is one specific change in the FReM that is important to highlight. The definition of 'salary' in the single total figure table in the remuneration report has been amended to state that it should include severance payments, including compensation for loss of office and early retirements. This has been reflected in the FT ARM.

NHS Improvement's decision

The changes to other disclosure items proposed in the consultation have been adopted in the FT ARM 2016/17.

In response to comments and other developments the following changes have been made:

- Paragraph 1.6: wording expanded to permit the merging of immaterial lines on the primary statements in the accounts.
- Paragraph 1.15: improved to state that the certificate on the summarisation schedules (FTCs) should be signed by both the chief executive and finance director.
- Paragraph 2.11: in line with changes to the FReM, a requirement to add an explanation of the section's purpose has been added to the overview section.
- Paragraph 2.11: to better align with the FReM, the need to include a summary of performance within the overview section is now noted.
- Paragraph 2.17: in line with changes to the FReM, the explanation of the purpose of the performance analysis section has been expanded.
- Paragraph 2.22: now makes clear that disclosures relating to payment performance and interest on commercial debt should be included in the directors' report but only if they are not included in the accounts.
- Paragraphs 2.57 and 2.58: amended in line with the FReM to require that 'salary' should include severance payments, including compensation for loss of office and early retirements.

4. Expected future changes to the FT ARM 2016/17

We do not currently expect future changes to cause revisions to the *FT ARM* later in the year.

Appendix A: List of respondents to the consultation, excluding anonymous and confidential responses

Accounting firms and other bodies

- Deloitte LLP
- Grant Thornton UK LLP
- Public Health England
- Healthcare Financial Management Association (HFMA)
- NHS England (South)
- NHS England (South East)

NHS foundation trusts

- Airedale NHS Foundation Trust
- Burton Hospitals NHS Foundation Trust
- County Durham and Darlington NHS Foundation Trust
- Dorset County Hospital NHS Foundation Trust
- Dorset HealthCare University NHS Foundation Trust
- King's College Hospital NHS Foundation Trust
- Lancashire Care NHS Foundation Trust
- Moorfields Eye Hospital NHS Foundation Trust
- Oxford University Hospitals NHS Foundation Trust
- Royal Berkshire NHS Foundation Trust
- Royal Devon & Exeter NHS Foundation Trust
- South Essex Partnership University NHS Foundation Trust
- University Hospital Southampton NHS Foundation Trust

One respondent asked us to keep their identity confidential.



Improvement

Contact us

NHS Improvement
Wellington House
133-155 Waterloo Road
London
SE1 8UG

T: 0300 123 2257
E: enquiries@improvement.nhs.uk
W: improvement.nhs.uk

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