HFMA consultation response
March 2024

Response to the consultation on the *Group accounting manual 2024/25*

Introduction

The *Group accounting manual 2024/25* (the GAM) was issued for consultation in February 2024[1]. There is one major change proposed for 2024/25 – the requirement for NHS bodies to meet the requirements of the Task Force on Climate Related Disclosures (TCFD) as interpreted by HM Treasury for public sector bodies. The phase one requirements will be back dated to the 2023/24 GAM.

The transition guidance for PFI liabilities being measured on an IFRS 16 basis has been removed.

Response

Do you have any comments on the move to incorporate TCFD recommended disclosures into the GAM to align with the FRAB endorsed approach HM Treasury is taking elsewhere in central government?

We agree that the approach to reporting on climate related matters should be aligned across government. It is helpful that the GAM provides NHS specific guidance with reference to the Greener NHS initiative.

It would be helpful if the requirement to include a summary of progress against the organisation's green plan could be included in the TCFD specific guidance in chapter three, annex five – simply to reinforce the need to join up reporting requirements.

We note that the second to last bullet point in paragraph 3.38 has not changed. We would expect that the existing disclosures in annual reports about the environmental impact of the NHS body would not change. However, paragraph 3.228, in the annex, states that where green plans contain relevant information then reference can be made to those rather than duplicating the information in the annual report. There is therefore a risk that disclosures could be removed rather than enhanced by the TCFD requirements. Some guidance on how to avoid too much repetition and circular reporting would be helpful.

[1] DHSC, *Group accounting manual 2024/25: consultation exercise*, February 2024

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Do you have any comments on the guidance provided in the GAM relating to the scope of application surrounding the TCFD disclosure requirements?
Paragraph 3.225 of the GAM states that the TCFD reporting requirements apply to organisations that have more than 500 full time equivalent employees or total operating income of more than £500m. We suggest that it is made clear that for integrated care boards (ICBs) and other commissioning organisations, this includes allocations from the Department of Health and Social Care (DHSC) which is not recorded as operating income in the annual report and accounts.

Do you have any comments on the guidance provided in the GAM relating to the recommended disclosures under the governance pillar?
It would be helpful if it was clear that these disclosures are made on a comply or explain basis. It may be that NHS boards have delegated oversight of climate-related issues to another committee. If this is the case, this needs to be reported along with the reasons that this is considered a more appropriate approach.

Do you have any comments on the guidance provided in the GAM relating to the recommended disclosures under the metrics and target pillar?
We note that the HM Treasury consultation on the phase two reporting requirements for 2024/25 includes guidance on primary users and materiality. It would be helpful if some of that guidance was replicated in the GAM. Our key comments on the consultation[2] are set out below:

> 'We agree that reporting entities must consider whether climate-related issues are material for that entity and that materiality will, in part, be assessed based on the importance of the issue to the users of the accounts and that some TCFD disclosures are required independent of a materiality assessment as they are fundamental to understanding an organisation's ability to manage climate-related risks.
>
> The NHS in England has statutory obligations regarding net zero, as articulated in the Health and Care Act 2022, and all NHS bodies have produced green plans that support the delivery of those ambitions. Progress in delivering the actions set out in those green plans will be of interest to users of NHS accounts. As there are separate requirements to report progress against green plan objectives, we also believe that cross referencing from the annual report and accounts to these existing reports should be encouraged to avoid duplicating content, or creating unwieldy documents that make finding information about actions in relation to climate change difficult to find.
>
> We welcome the approach that the TCFD framework is principles-based, and that in-scope reporting entities must apply a 'comply or explain' basis for disclosure, as set out in paragraph 1.32.
>
> Overall, we agree that the chapter adequately sets out the scope, principles and concepts for disclosure.
>
> We note the flowchart for applying this guidance in figure 1.2 refers to the undertaking of significant activities in relation to eight key areas. We would welcome further clarity where these are not the primary function of the body but might apply. For example, how these might apply to NHS bodies such as 'transportation' for ambulance trusts or NHS bodies who may generate energy (i.e. solar panels) or own significant assets for the purposes of delivering healthcare services.'

Do you have any comments on the guidance provided in the GAM relating to the recommended disclosures under the risk management pillar?
We have no comments to make on this guidance.

Do you have any other comments regarding the TCFD guidance in the GAM?
The heading above paragraph 3.230 includes a typo – TFCD instead of TCFD.

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[2] HFMA, *HFMA's response to HM Treasury's phase 2 exposure draft for TCFD aligned disclosure*, February 2024

We suggest that figure one on page 18 of the TCFD guidance[3] is included in the GAM as that provides some context as to what the pillars mean. We understand that the GAM should be read in conjunction with the other guidance, but this would mean that the GAM can be read as a stand-alone document.

The suggested text includes reference to the GAM and assumes a level of understanding of the TCFD requirements that may not be helpful to the reader of an NHS body's annual report. We suggest that the first section is much shorter and says something like:

'NHS bodies are required to incorporate the TCFD recommended disclosures, as interpreted by HM Treasury, in their annual reports and accounts on a phased basis. 2023/24 is the first phase and 2025/26 will be the third and final phase. NHS bodies are not required to follow the guidance in relation to the disclosure greenhouse gas emissions and related risks.

The TCFD guidance has four themes or pillars – governance, strategy, risk management and metrics and targets. In 2023/24 the disclosure requirements of the governance pillar were met. The second phase means that the 2024/25 includes the disclosure requirements of the risk management and metrics and targets pillars.

These disclosures [are provided below with appropriate cross referencing to relevant information elsewhere in the ARA and in other external publications / have not been provided because….]'

Do you have any further comments regarding the guidance provided in the GAM relating to the measurement of PFI liabilities on an IFRS 16 basis?

We note that at the pre-accounts planning conference, NHS England identified some areas where NHS bodies have made errors in the month 9 and 10 returns. It may be helpful to update the 2023/24 to make the disclosure requirements clearer. For the 2024/25 GAM, we suggest that the guidance is revisited following the first year of implementation.

Do you have any other general comments on the draft group accounting manual?

We have set out some detailed comments on the draft group accounting manual in the table below, some of these comments were made in our response to last year's consultation.

Reference (paragraph unless stated otherwise)	**Comment**
1.7	A link to the IFRS standards would be useful to preparers of the accounts.
Section 2	The legislative framework refers to NHS foundation trusts. It is unclear why the legislative framework for trusts and the other bodies is not listed? We suggest that the framework should cover all NHS bodies or be removed from the GAM.
Chapter 2 Annex 4	This annex refers to 'NHS trust accounts directions', signposting to other bodies' directions would be helpful.
Chapter 2 Annex 6	This annex is headed ICB and NHS trusts auditor's annual reports. This is a requirement for all NHS bodies, including foundation trusts.
3.9	This paragraph refers to the Financial Reporting Council's July 2018 publication of *Guidance on the strategic report*. This guidance was updated in July 2022[4].
3.15	This paragraph states that 'NHS bodies are not required to comply with the UK code of corporate governance'. We suggest it would be helpful to

[3] HM Treasury, *TCFD aligned disclosure application guidance: phase 1*, July 2023
[4] FRC, *Strategic report guidance 2022*, July 2022

Reference (paragraph unless stated otherwise)	Comment
	refer readers to the *Code of governance for NHS provider bodies*[5] and cross refer to paragraph 3.52.
3.28	This paragraph refers to ICB general duties under sections 14Z34 to 14Z45 and 14Z49 of the Health and Care Act 2022. Is it possible to list these duties for the reader? As we noted in the first row of this table, there are differences between the reporting requirements in the GAM and the FT ARM in relation to some of these duties as they apply to providers.
3.39, second bullet point	We note that this requirement was first included in the 2020/21 GAM. However, it is not clear what the requirement means, and further clarity would be helpful.
3.52	The FT ARM includes guidance on how the disclosures required by the Code of governance for NHS provider trusts should be met. It would be helpful if the two documents aligned now that the code applies to NHS trusts as well as NHS foundation trusts.
3.79-3.81	Where there is a joint appointment, the GAM is clear only the remuneration relevant to the reporting body is included in the single figure table. Should the same principle be applied to pension related disclosures? If so, how should it be apportioned?
3.97	The paragraph discusses where a member has opted out of the pension arrangements. Specific guidance in relation to other arrangements, in place of pension contributions, would be useful.
3.104	A question was asked at the pre-accounts planning conference about whether there is any disclosure required in relation to the public service pensions remedy. We note that paragraph 3.106 includes some proposed wording. Is a more general statement required in relation to the wider staff group?
3.122	The fair pay disclosure in paragraph 3.122 of the GAM is not the same as paragraph 2.93 of the FT ARM – it would be helpful if the two were aligned.
3.110	It would be helpful to include in the GAM the guidance in paragraph 2.1 of the Hutton guidance that the highest paid director should be consistent with the single total figure of remuneration. It may be better simply to add the Hutton guidance as an annex to the GAM to avoid bodies having to refer to two sets of guidance.
3.166 h	This paragraph mandates pension disclosures in the case of stakeholder pensions. As we referred to earlier, it would be useful to provide guidance on any disclosure requirements in respect of additional cash in lieu of pension contribution.
4.98	This paragraph implies that block contracts are the default which is no longer the case. It would be helpful to refresh the guidance to refer to aligned payment and incentive arrangements and reminder preparers

[5] NHS England, *Code of governance for NHS provider trusts*, February 2023

Reference (paragraph unless stated otherwise)	Comment
	that under these arrangements partially completed patient spells could arise and need to be accounted for.
4.201 and 4.986	The capitalisation threshold of £5,000 has not been amended since shortly after capital accounting was introduced to the NHS in the 1990s. We understand that it was set to this level to ensure that NHS bodies did not have to record small, highly immaterial items in their asset register and manage them appropriately over their useful economic life. We suggest that it should be reviewed to ensure that it is still appropriate – while there has been general upward inflation since the de minimis was introduced, this has not been the case for all capital items. For example, computers and IT equipment has become cheaper over that period. Some NHS foundation trusts increased their de minimis to £10,000 with no impact on their audit reports, suggesting that the impact was immaterial. When NHS foundation trusts were directed to follow the GAM for all accounting guidance, they had to return to the £5,000 level again. If HM Treasury's proposals to change the approach to the valuation of non-current assets are adopted, this may be an appropriate time to revisit the de minimis level.
4.291	We suggest that additional guidance in respect of provisions, in particular their impact on RDEL and AME and the difference between provisions and accruals, would be helpful to promote wider understanding. We understand that this is a budgeting not an accounting issue, but it is an issue frequently raised at the HFMA's pre-accounts planning conference.
4.341 and 5.253	These paragraphs refer to charities where trustees are appointed by NHS England. This is no longer the case, NHS charities are either independent or have an NHS body as the corporate trustee. See *NHS charities guidance*[6].
4.399	It is not clear what this paragraph means.
Chapter 4 Annex 1	Should IFRS 17 be included in the table of standards, as it has been published but is not yet applicable to the NHS?
4.768 and 4.768	The paragraph on new models of care may need updating to reflect the latest practice, such as provider collaboratives and other joint working arrangements.
4.961and 4.962	Our members report that the valuation of right of use assets has been raised by auditors during 2022/23 with some firms insisting that a valuation is required as lease contracts do not reflect market price. Similarly, auditors have noted that some organisations are also considering revaluing right of use assets. It was expected that it would be rare that an external valuation for a right of use asset would be required. It would be helpful if the GAM could make this clear.

[6] DHSC, *NHS charities guidance*, updated October 2022

Reference (paragraph unless stated otherwise)	Comment
4.1001	The NHS England presentation at the pre-accounts planning conference provided some useful guidance on the difference between a lease modification and a lease remeasurement. It would be helpful to include that guidance in the GAM
4.1051	As we noted in our response to the HM Treasury exposure draft on revaluing non-investment assets, our members are now struggling with the impact of IFRS 16 on budgeting, in particular, on managing and forecasting the impact on the capital departmental expenditure limit (CDEL) and the impact of any revision of any lease terms or value of right of use assets. Prior to implementation it was expected that the change to an accounting standard would not have an impact on budgets, but this is not proving to be the case. Our members are reporting that they are making sub-optimal decisions so they can keep within CDEL, such as entering into shorter leases or not renewing leases at all. In order that this does not happen again, it is important that the budgetary impact of this proposed change is fully explored and understood so that unintended consequences like this do not occur again.
5.250	For NHS bodies to practically apply the requirement to consider DHSC ministers, their close families and entities controlled or influenced by them means that they need to have access to the list that the DHSC uses to make this disclosure. It would be helpful if this requirement could make it clear that reviewing the list of ministers' interest would be sufficient and/ or the register of members' financial interests would be sufficient or whether another list of related parties is available and should be reviewed.
5.264 and 5.265	It might be useful to include reference in these paragraphs to *Managing public money* and the need to seek HM Treasury approval before making a donation to charity from exchequer funds.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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