

Provider Workshop

HFMA Pre-Accounts Planning

Presented by:

Steve Hubbard, Deputy Director, Financial Oversight & Delivery

Ian Ratcliffe, Deputy Director, Financial Accounting

Eleanor Shirliff, Head of Provider Financial Accounting

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Introductions

Financial Delivery: Financial Reporting Steve Hubbard	Team responsible for: <ul style="list-style-type: none"> • Delivery against revenue plans • In-year financial monthly collections from systems • Working with regions to monitor issues affecting year end outturn • Implementing the revenue reporting impacts of policy
Financial Control: Provider Financial Accounting Ian Ratcliffe Eleanor Shirliff	Team responsible for: <ul style="list-style-type: none"> • Statutory accounting and reporting for providers • Month 9 and month 12 'TAC' schedules • Liaising with audit community • Implementing DHSC agreement of balances process
Not our teams	<ul style="list-style-type: none"> • Monitoring capital outturns / impact of IFRS 16 on capital budgets • Setting system budgets, revenue allocations, capital envelopes • Process for approvals of special payments / special severance payments • Cash and transacting flows in the NHS

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Agenda

Financial Delivery and Reporting

- Key developments for year end
- Impact of technical areas
- Monthly timetable

Questions

Financial Control: Provider Accounting

- 2023/24 updates
- PFI remeasurement: feedback from month 9
- Looking ahead
- Taxation update

Questions

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Financial delivery and reporting

Steve Hubbard

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Elective Recovery Fund

Year end Process

- ERF process is about allocation of funding to Commissioners
- Figures for 2023/24 entitlement calculated by NHS England using month 1-9 activity sent to regions / systems for review and feedback
- Dry run calculation using month 1-8 figures – with regions at present
- NHS England will adjust 2024/25 ERF targets for material differences in Q4 performance
- Important to work together in systems to ensure accurate understanding of activity

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Industrial Action impact

Year end Process

- Industrial Action (IA) happened in Dec and Jan and announced for Feb.
- We have collected information at month 9 and month 10 for reference and to inform the financial position.
- Going forwards not looking to collect IA in monthly forms.
- Expect to issue funding based on central calculations.
- Organisations and systems then expected to manage their positions.

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PFI / IFRS16 remeasurement – PDC dividend gain

Year end Process

- PFI – PDC dividend gain because of the technical changes.
- We will be collecting details at month 11 more detail at the webinar.
- We need to understand the position in local systems regarding this windfall gain.
- Systems should be prudent and not assume or rely on this funding to deliver system positions
- The adjustment will be actioned similar to PFI financing costs where the cost pressure has been removed from system performance.
- The change creates a national pressure on DHSC budgets.
- It also creates a technical pressure for the national NHS England position.
- We appreciate your support with this complex situation.

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Technical Areas

Year end Process

- NHS England now responsible for ALL technical areas.
- Important organisation continue to forecast and report as accurately as possible.
- Key areas – emails sent to providers this week.
 - Provisions (19 providers being contacted £5m move)
 - Credit Loss allowance (5 providers being contacted £5m move)
 - PFI – PDC div as previously – **NEW**
 - Depreciation – **NEW**
 - 5 providers for month 10 forecast last year £5m movement month 12
 - 10 providers YTD to FOT.

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Cash

Year end Process

- NHS England looked to distribute more cash at month 12.
- ICBs had increased resource levels to enable them to draw increased cash in March.
- Hopefully, this has enabled increased cash to flow to providers.
 - Aim is to assist cash flow generally.
 - Improve BPPC which remains a key target.

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Webinar & Reporting timetables

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Monthly timetable

Collection period	Key messages webinar (10am) and slides issued (WD-3)	Key messages Q & A published (WD-2)	PFR / IFR changes webinar (WD-1 last working day of the month)	Issue PFR / IFR and guidance (WD1)	PFR / IFR changes webinar (10am) Q & A published (WD1)	Providers supply PFR with DRAFT key data to ICB (WD6)	PFR Fixer issue (WD9)	Providers supply PFR with FINAL key data to ICB (WD9)	ICB submit FINAL IFR to national team (WD10)	PFR Submission date for organisations (copied to system) (WD 11 MIDDAY excl m9 & m12)
Month 11 February	Tuesday 27 February	Wednesday 28 February	Thursday 29 February	Friday 1 March	Friday 1 March	Friday 8 March	Wednesday 13 March	Wednesday 13 March	Thursday 14 March	Friday 15 March
Month 12 Draft Accounts	Tuesday 26 March	Wednesday 27 March	Thursday 28 March	PFR Tuesday 26 March IFR Tuesday 2 April	Tuesday 2 April	Wednesday 10 April (WD7)	TBC	Tuesday 16 April (WD11)	Wednesday 17 April 12:00PM (WD12)	Wednesday 24 April
Month 12 Final Accounts	N/A	N/A	N/A	N/A	N/A	N/A	TBC	N/A	N/A	Friday 28 June

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Monthly timetable Draft year-end ICB / NHS England timetable:

Working Day	Date	Action
WD-3	Tuesday 26 March	Key Messages Webinar
WD-3	Tuesday 26 March	PFR templates / guidance issued by national team
WD-1	Thursday 28 March	PFR / IFR changes webinar
WD1	Tuesday 2 April	IFR templates / guidance issued by national team
WD7-11	Wednesday 10 – Tuesday 16 April	Draft PFR submission (tab 99. Key Data) emailed from NHS providers to ICBs. Local submission only - no national review at this stage. System discussion (including regions) to agree financial position. NHS providers to resubmit PFR to ICB as required.
WD11	Tuesday 16 April 5:00PM	AP12 ISFE hard close.
WD11	Tuesday 16 April	Latest date that NHS providers can submit PFR (tab 99. Key Data) to ICB. Provider rec points should be FINAL.
WD12	Wednesday 17 April 12:00PM	ICBs submit IFR to national finance ensuring that it reflects the final, agreed financial position for the ICB and system (including provider rec points).
WD12	Wednesday 17 April 8:00AM	AP13 ISFE opens.
WD12-14	Wednesday 17 – Friday 19 April	Initial review of figures submitted by national team.
WD14	Friday 19 April 5:00PM	AP13 ISFE closes
WD17	Wednesday 24 April	ICB M12 accounts template submission to national team Full PFR (TAC) submission to national team (12:00PM)

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Questions



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Financial Control: Provider Accounting

Ian Ratcliffe

2023/24 updates

PFI remeasurement: month 9

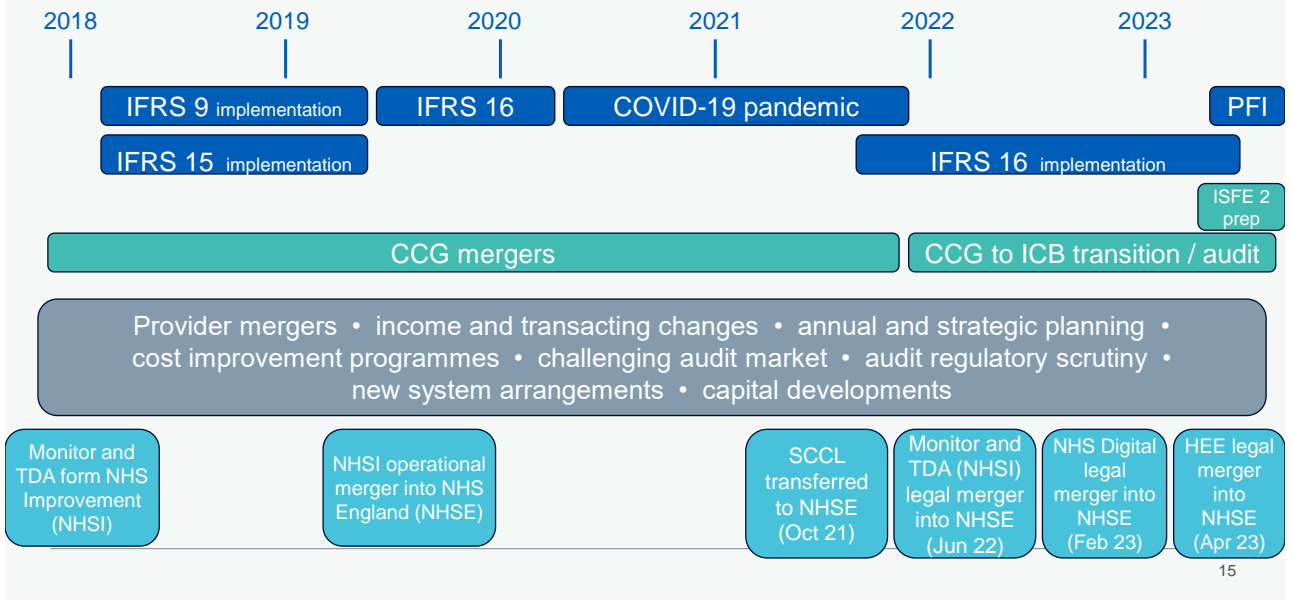
Looking ahead

Taxation update

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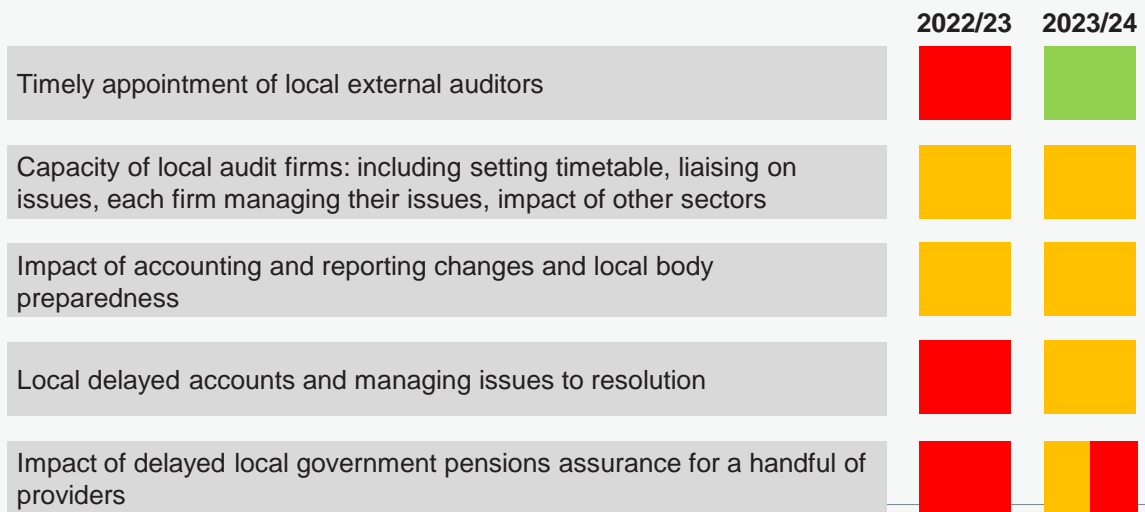
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Financial reporting for NHS bodies



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Timeliness of national accounts: managing risks



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Accounts and reporting manuals 2023/24 changes

Accounts

Remeasuring PFIs on IFRS 16 principles

✓ NHS trusts
(GAM)

✓ NHS FTs
(GAM)

Annual reports

Mandatory disclosures stemming from Provider Code of Governance ([link](#))

✓ NHS trusts
(GAM)

✓ NHS FTs
(FT ARM)

Governance disclosures from task force on climate-related financial disclosures (TCFD)

✓ NHS trusts
(GAM update due)

✓ NHS FTs
(FT ARM)

Other areas affecting annual reports

NHS England statement on information on health inequalities

✓ NHS trusts
(GAM)

✓ NHS FTs
(FT ARM)

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Provider Code of Governance

- Provider Code of Governance published by NHS England in October 2022: <https://www.england.nhs.uk/long-read/code-of-governance-for-nhs-provider-trusts/>
- Replaces previous FT Code of Governance issued by Monitor. New for NHS trusts.
- It has been applicable since April 2023 (per paragraph 2.1)
- Entities should be self-assessing themselves against its requirements
- Remember there are disclosure requirements in annual reports: some mandatory, some 'comply or explain': summarised in Schedule A
- Contact regional teams with any queries

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Provider accounting policies 2023/24

- Updates to provider accounting policies in 2023/24 reflect: (1) changes in contracting arrangements; (2) PFI liability measurement; (3) updating tenses in referring to IFRS 16 transition in prior year; (4) discount rates
- Revenue and contracting for providers: aligned payment & incentive (API) income has both a variable and a fixed element -
 - API variable: elective etc: income earned with reference to NHS payment scheme based on actual activity
 - API fixed: income entitlement not tied to units of activity
- Elective recovery fund (ERF) operates at system level

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NAO audit code changes consultation

- NAO consultation closes 7 March
- Mostly linked to wider package of measures for local government
- NHS relevance, proposed from 2023/24:
 - Proposes that auditors issue their auditor's annual report to NHS bodies by one month after the audit report – but could also issue earlier than the audit report if in public interest to do so
 - Proposes removing the 'special reporting provisions' introduced in 2020/21 which has enabled auditors to report their conclusions on proper arrangements for value for money ('VFM') later than the opinion on the financial statements. This change would restore combined reporting at the time of issuing the audit report. **Therefore: important to support auditor's VFM work or may hold up accounts audit opinion.**

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Year end items

6.3% employer pension contribution top up

Central funding arrangements have continued in 2023/24.

We expect to provide statements in w/c 11 March. Validated in month 12 TACs.

2019/20 clinicians' pension provision

We expect to provide updated estimates by the end of March.

DHSC donated PPE inventory

Month 12 statements expected to be available by 8 April. Validated in month 12 TACs.

- The above adjustments are all outturn neutral

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Month 12 templates

Month 12 TAC schedules

- No significant changes expected to TAC schedules
- Minor updates for:
 - Providers ceasing to have controlling interest in charitable funds (impacts 2 providers)
 - Lead providers in MH collaboratives recognising income from other lead providers for out of area placements
 - Additional checks on PFI transition disclosures

Accounts templates / accounting policies

- Template accounting policies were issued on 2 February and can be downloaded from the 'additional documents' section of the provider portal
- Optional accounts template to be released alongside or shortly after standalone TACs on 8 March

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TAC schedules – our regular reminders

Month 12

Some important reminders (a plea from us!):

- Avoid cutting and pasting (always copy and paste) – we spend hours fixing formulas in broken forms just to balance our accounts
- Remember to break links and unshare workbooks
- JoC (justify or change) points – please read them carefully and amend errors or answer the question appropriately. We read and assess every single one.
- Your accounts and TAC schedules should be consistent – inconsistencies cause problems. BUT DHSC inventory treatment is again an allowable inconsistency this year.
- Your auditor should NOT be suggesting an inconsistency between accounts and TAC schedules not already covered in TAC Completion Instructions
- **PLEASE** ensure your audited PFR form (with TAC schedules) is identical to the one submitted by your auditors to the NAO

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Other points

- PFI buyouts – consult, can't rely on form due to national impacts
- Accrual vs provision – IAS 37 has the definition of an accrual (para 11)
- Vesting certificates - simple answer: apply IAS 16
- Audit market and procurements – why do some trusts still not follow our advice?
- Compliance with approvals framework including special severance payments – reminder of rules in our timetable letter
- Prepayments – anything significant beyond work completed needs to achieve value for money. If an item prepaid does not arrive it is a cash loss in losses and special payments

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Financial Control: Provider Accounting

Eleanor Shirliff

2023/24 updates

PFI remeasurement: month 9

Looking ahead

Taxation update

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IFRS 16 reminders

Cost vs valuation

The cost model under IFRS 16 can function as a proxy for valuation where:

- Lease arrangements contain provisions to update rental payments for market conditions (rent reviews / inflationary uplifts)
- Assets have shorter lives or lower values (eg non-property assets)

When to apply a revised discount rate

- ✓ Change in lease term
- ✓ Change in assessment of a purchase option
- ✓ Lease modifications
- x Changes in an index or rate including market rent reviews **do not** use a revised discount rate
- Release of a new incremental borrowing rate by HM Treasury **does not** trigger a remeasurement.

Modification vs remeasurement

- A lease modification if a change to the terms and conditions of the lease
- A lease remeasurement is a reassessment of the liability
- A market rent review (in the original terms of the lease) is not a lease modification

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IFRS 16: Measurement of PFI liabilities

Accounting recap

- IFRS 16 liability measurement principles are applied to PFI schemes from 1 April 2023.
- Modified retrospective application without restatement.
- Impacts schemes where an inflationary uplift is applied to the whole unitary payment, including the portion allocated as payment for the PFI asset.

IAS 17

- Minimum lease payments included in the imputed lease liability do not include inflationary uplifts.
- When inflationary uplifts are applied, the increase in the lease payment (the variable element) is charged to finance costs as 'contingent rent' as incurred.

IFRS 16

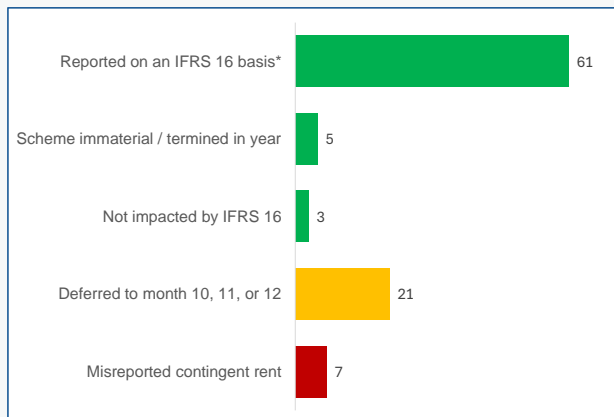
- Variable lease payments dependent on an index or rate are included in the imputed lease liability.
- When inflationary uplifts are applied, the PFI liability is remeasured to include the new higher future lease payments.
- The remeasurement is charged to finance costs (different to leases).

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IFRS 16: Measurement of PFI liabilities

97 providers held PFI liabilities on 1 April 2023. **At month 9:**



The 61 providers who remeasured:

- Account for 84% of total sector PFI liabilities (by value)
- Generated a transition remeasurement of £4.6 billion (71% increase)
- Generated in-year remeasurements of £1.2 billion

* The accuracy of remeasurements has not been tested by NHS England

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IFRS 16: Measurement of PFI liabilities

Disclosures – gross/net liability maturity analysis

Note 33.1 On-SoFP PFI, LIFT or other service concession arrangement obligations	Expected sign	A24CY02	A24PY02	Maincode
		PFI schemes		
		31 Dec 2023 £000	31 Mar 2023 £000	
Gross PFI, LIFT or other service concession SoFP obligation	+	20,881	12,063	PF10010
of which liabilities are due				
- not later than one year:	+	4,022	1,936	PF10020
- later than one year and not later than five years:	+	12,421	7,417	PF10030
- later than five years:	+	4,438	2,710	PF10040
Finance charges allocated to future periods	-	(4,169)	(2,844)	PF10050
Net PFI, LIFT or other service concession SoFP obligation				
- not later than one year:	+	16,712	9,219	PF10060
- later than one year and not later than five years:	+	1,254	1,254	PF10070
- later than five years:	+	9,971	5,730	PF10080
	+	5,487	2,235	PF10090

Note 33.1 provides a maturity analysis of the gross and net imputed lease liability. As the discount rate is unchanged, both the net and gross liabilities are expected to increase due to remeasurement.

At month 9:

- 8 providers recognised the expected increase in their net liability but a reduction in the gross liability (and a reduction in future finance charges)
- Some providers may not have used the remeasured lease payments in the gross analysis – *an update to the model was published in December to include an IFRS 16 maturity analysis.*
- Other providers may have included contingent rent in the gross liability analysis in the prior year in error. Where this error is material, the prior year should be restated.

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IFRS 16: Measurement of PFI liabilities

IAS 8 disclosures – impact on UP allocation

Note 33.4 Impact of change in PFI / LIFT and other service concession arrangement accounting policy on the allocation of unitary payment	Expected sign	A24CY05	A24CY06	A24CY07
		IFRS 16 basis (new basis)		Impact of change
		2023/24 £000	2023/24 £000	2023/24 £000
Unitary payment payable to service concession operator (total of all schemes)	+	5,373	5,373	0
Consisting of:				
- Interest charge	+	1,053	508	545
- Repayment of balance sheet obligation	+	1,965	944	1,021
- Service element (and other charges to operating expenditure excluding revenue lifecycle)	+	2,355	2,355	0
- Capital lifecycle maintenance	+	0	0	0
- Revenue lifecycle maintenance	+	0	0	0
- Contingent rent	+	0	1,566	(1,566)
- Addition to lifecycle prepayment - capital	+	0	0	0
- Addition to lifecycle prepayment - revenue	+	0	0	0

Month 12: Additional signage checks will help providers check the completion of this disclosure

Following implementation of IFRS 16 remeasurement, contingent rent should reduce to nil and be replaced with an increase in interest and repayment of principal.

At month 9:

- 8 providers (who remeasured) disclosed either no change or a reduction in the amount of UP allocated as repayment of the liability.
- Not clear if these are modelling errors or form completion errors.

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IFRS 16: Measurement of PFI liabilities

IAS 8 disclosures – impact on primary statements

Note 33.5 Impact of change in accounting policy on financial statement line items	A24CY07		R
	Expected sign	2023/24 £000	
All schemes			
2023/24 impact of change in PFI accounting policy - SoFP:			
Increase in PFI/LIFT and other service concession liabilities	-	(8,437)	I
Decrease in PDC dividend payable / increase in PDC dividend receivable	+/-	284	I
Increase in cash and cash equivalents (impact of PDC dividend only)	+	0	I
Impact on net assets as at 31 December 2023	-	(8,153)	I
2023/24 impact of change in PFI accounting policy - SoCI:			
PFI liability remeasurement charged to finance costs	-/+	(1,649)	I
Increase in interest arising on PFI liability	-	(545)	I
Reduction in contingent rent	+	1,566	I
Reduction in PDC dividend charge	+	284	I
Net impact on surplus / (deficit)	+/-	(344)	I
2023/24 impact of change in PFI accounting policy - SoCIE:			
Adjustment to reserves for the cumulative retrospective impact on 1 April 2023	-/+	(7,809)	I
Net impact on 2023/24 surplus / deficit	+/-	(344)	I
Impact on equity as at 31 December 2023	+/-	(8,153)	I
2023/24 impact of change in PFI accounting policy - SoCF:			
Increase in cash outflows for capital element of PFI/LIFT	-	(1,021)	I
Decrease in cash outflows for financing element of PFI/LIFT	+	1,021	I
Decrease in cash outflows for PDC dividend (not required until I12)	+	0	I
Net impact on cash flows from financing activities	+	0	I

At month 9:

- 7 providers disclosed the increase in the closing liability as greater than or equal to the sum of the remeasurements – this will not have taken into account the increased repayments in the year.
- 24 providers disclosed a nil impact on PDC dividend despite there being a change to both opening and closing net assets.

Revenue consequences of IFRS on PFI:

Providers should also remember to update the PDC dividend number in Table 33C. The impact of PFI assets / liabilities on the dividend charge is a revenue impact that is stripped out in departmental budgets.

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PFI total future commitments disclosure

Note 33.2 Total future payments committed in respect of PFI, LIFT or other service concession arrangements (includes but may not be limited to total future unitary payments)	A24CY02		A24PY02	
	Expected sign	31 Dec 2023 £000	PFI schemes 31 Mar 2023 £000	PFI schemes 31 Mar 2023 £000
Total future payments committed in respect of PFI, LIFT or other service concession arrangements	+	1,970,828	2,028,167	
of which due:				
- not later than one year;	+	75,401	75,401	
- later than one year and not later than five years;	+	310,871	310,871	
- later than five years.	+	1,584,556	1,641,895	

This is a disclosure of the provider's total commitment under the PFI scheme at the balance sheet date. As this relates to the entire unitary payment (not just the imputed lease element), it should not be impacted by the transition to IFRS 16.

At month 9:

- Some providers changed the basis of preparation of this note, recognising significant year on year movement.
- DHSC will be clarifying in the GAM that this disclosure should be contractual commitments at current prices at the balance sheet date (ie include actual inflation to date but no assumptions for future inflation).
- This is a clarification of an existing requirement and not a change resulting from IFRS 16. Therefore the comparative analysis should be prepared on the same basis – restatement is necessary if material.

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Financial Control: Provider Accounting

Ian Ratcliffe

2023/24 updates

PFI remeasurement: month 9

Looking ahead

Taxation update

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ISFE2

- ISFE is the Integrated Single Financial Environment used in the NHS England group. The timetable for implementation of ISFE2 in the NHS England group (NHS England plus ICBs) is being reviewed. At a later point the service will also be available to providers.
- Provider organisations will be able to join ISFE2 without the need for a separate contract or tendering requirements; but local governance arrangements would still need to be followed. Pricing within the new contract is tiered to accommodate all providers and transactional volumes, with unit prices reducing with increases in transactional volume.
- A prospectus document outlining the future options to provider organisations of joining the ISFE2 service will be issued to Provider DoFs, and ICB DoFs following completion of a review of the implementation timetable.
- Our Systems team encourages interested providers to not sign up to long multi term contracts with current ledger or outsourced financial services providers but instead opt for annual year to year extension contracts when available.
- Interested providers should look out for the prospectus for further information and next steps or email england.centralfinancepmo@nhs.net

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Measurement of non-investment assets

HM Treasury thematic review presented to Financial Reporting Advisory Board (FRAB)

Proposed implementation from 1 April 2025 (prospective): i.e. 2025/26

Distinction between 'specialised' and 'non-specialised' assets removed. Instead 'assets held at operational capacity' – measured at Existing Use Value (DRC)

A policy of revaluations every 5 years (or rolling programme) with annual indexation

Depreciated Replacement Cost (DRC) based on asset in existing location: NOT alternative site

Intangible assets measured at (deemed) historic cost

HMT Exposure Draft consultation closed 16 February. NHS England comments:

- suggesting 2026/27 implementation rather than 2025/26
- clarity in FReM text on measurement for 'assets held at operational capacity' and transition
- emphasising importance of audit response and robustness of indices

Next step: HMT response to Exposure Draft

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IFRS 17

The new standard for the recognition, measurement, presentation and disclosure of in scope insurance contracts

- HM Treasury IFRS 17 application guidance published July 2023: <https://www.gov.uk/government/publications/government-financial-reporting-manual-application-guidance>
- Application from 1 April 2025 but with comparatives so 1 April 2024 is transition date
- HMFA PAP session on Wednesday explained the Standard and application
- *Probably* not huge impact but we don't know what we don't know. Please have a think about where you might be the **issuer** of insurance:
 - e.g. a contract with private sector supplier with guarantees that transfers some insurance risk or might commit to make good any losses incurred?
 - Refer to Standard and HMT application guidance
- HFMA briefing: <https://www.hfma.org.uk/publications/ifrs-17-insurance-contracts>

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Financial Control: Provider Accounting

Ian Ratcliffe

2023/24 updates

PFI remeasurement: month 9

Looking ahead

Taxation update

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Taxation update (1 of 2)

- **Section 41 reform**
 - Work ongoing with HMT focussing on identifying the consequences of reform across government
 - No roadmap available as yet but there may be another data collection request this year
 - Current message is business as usual and ensure VAT is being accounted for appropriately
- **Partial exemption**
 - Updated statement of practice will be applicable from 1 April 2024
 - Key that entities have considered the impact on their partial exemption processes
 - HMRC are running a webinar specifically for NHS bodies on 27 February 2024 (Register via this link <https://attendee.gotowebinar.com/rt/2454988900237672031>)

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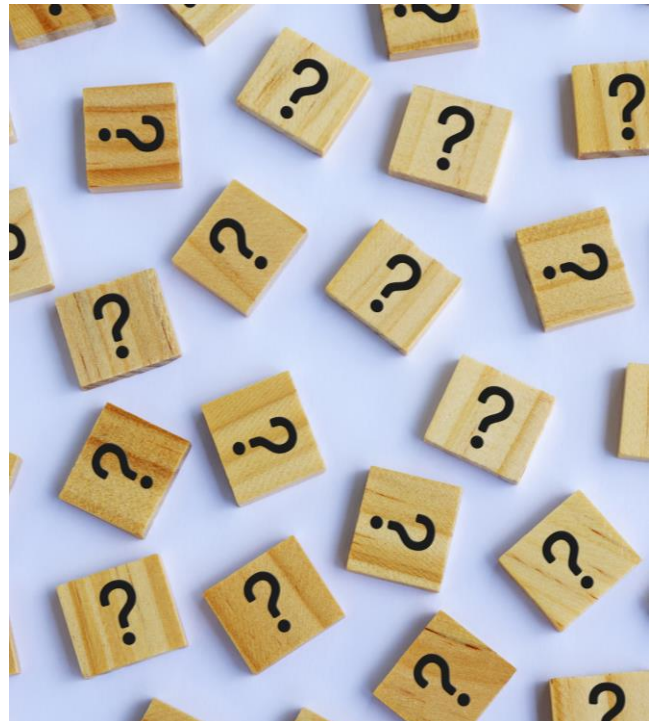
Taxation update (2 of 2)

- **Making Tax Digital**
 - Delayed again until 1 April 2025 at the earliest
 - Update from HMRC expected October 2024
- **Northumbria VAT case**
 - Relates to the charging and recovery of VAT on the provision of car parking
 - Appeal heard at the Court of Appeal earlier this month
 - ‘Business as usual’ at present and once we hear on judgement we will feed back

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Questions



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Thank You

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