

## **Response form for consultation on Amendments to the Financial Risk Ratings in the *Compliance Framework 2009/10***

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**Job title:** Technical Editor

**Organisation:** HFMA

### **Nature of organisation:**

The Healthcare Financial Management Association (HFMA) is the professional financial voice of the NHS. We are a representative body for finance staff in healthcare. Our members work predominantly in the NHS and our aim is to maintain and develop the financial management contribution to healthcare in the UK.

This response represents the views of our FT Technical Issues Group – a group established by the HFMA to provide a forum for finance specialists in foundation trusts to share ideas and experience and develop practical guidance.

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**Please write your answers to the following questions below. Please expand the boxes or continue on further sheets if necessary. Then follow the instructions at the end of this form to return your response to Monitor.**

### **Consultation questions**

**1**

**a) Do you agree that there is no need to change the financial metrics, and their calculation used to derive FRRs, as a result of the introduction of IFRS?**

In our view, it is not possible to answer this question definitively at this stage as the impact of IFRS on risk ratings cannot be assessed until trusts have completed their work on restating opening balance sheets and shadow accounts for 2008/09.
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**b) If you believe that there is a need to make changes to the financial metrics as a consequence of the adoption of IFRS, why do you believe this to be the**

**case, in which areas and, specifically, what changes do you believe are necessary?**

**2**

**a) Do you agree with the proposals to change the liquidity ratio rating categories 4 and 5 (increasing the number of operating days in each case), so as to:**

- i) Reduce the incentive to retain unnecessary working capital facilities?**
- ii) Reduce the incentive to retain cash balances primarily for the purposes of our liquidity metric?**

NO

**b) If not in each case, why not and what alternative changes do you consider may be appropriate?**

In our view, these proposals would not have the effect that Monitor desires as higher cash balances and larger working capital facilities would be encouraged in order to retain a high rating. We would suggest that the best course of action is to return to a more standard definition of liquidity by taking working capital facilities out completely provided liquidity days are above a pre-set threshold.

**c) Do you agree with the proposed changes to the definition of the liquidity ratio so as to include other short-term obligations and prepayments?**

YES

**d) If not, why not?**

**3**

**a) Do you agree that the discretionary use by Monitor of an investment adjustment in specific circumstances will help to encourage consideration of**

**longer term investment and service development by NHS foundation trusts, including, but not limited to, the acquisition of failing hospitals?**

YES – in our view this would be a step in the right direction. However, it would be helpful if Monitor set out more clearly the nature of the ‘specific circumstances’ referred to.

**b) If not, why not, and what other changes if any would you suggest to encourage prudent investment in the development of services for the benefit of patients and users?**

**Thank you for responding to this consultation. Please save this document, and email it to [consultation@monitor-nhsft.gov.uk](mailto:consultation@monitor-nhsft.gov.uk).**

**Alternatively, you can fax your response to 020 7340 2401, or post it to Monitor, 4 Matthew Parker Street, London, SW1H 9NP**

**Responses to the consultation need to be received by Monitor no later than 5pm Friday 31 October 2008**

**We will publish the results of the consultation.**

**If you would prefer for your identity not to be included within the published results, please tick here**