HFMA briefing
January 2021

Consolidation of NHS charities

2020/21 considerations

Introduction

Since 2013/14, all NHS bodies that are an NHS charity corporate trustee must consider whether the NHS charitable funds should be consolidated into the NHS body's accounts.

Usually, the decision to consolidate or not is based on the materiality of the charitable funds in relation to the NHS body. The Covid-19 pandemic emergency appeal is likely to increase the income of NHS charities, perhaps to the extent that they will need to be consolidated for the first time.

This briefing is an update of the one that the HFMA published in 2014 – it now reflects current accounting standards and reporting requirements.

While every care had been taken in the preparation of this guidance, HFMA cannot in any circumstances accept responsibility for errors or omissions and are not responsible for any loss occasioned to any person or organisation acting or refraining from action as a result of any material in it. It is each NHS organisation's responsibility to determine the appropriate accounting treatment based on their circumstances and to agree that accounting treatment with their auditors.

We always welcome feedback on our publications, please contact debbie.paterson@hfma.org.uk with your comments.

Background

Between 2010/11, when adoption of International Financial Reporting Standards (IFRS) was adopted by the NHS, and 2013/14, there was considerable debate about whether NHS charities should be

The CPD Standards Office
CPD PROVIDER: 50137
2018-2020
www.cpdstandards.com

consolidated into the accounts of the NHS body where the requirements of IAS 27 applied. This debate centred around the independence of NHS charities – as charitable law requires them to act independently for the best interests of the charity and its beneficiaries. However, IAS 27 required that control and benefit should be considered when determining whether consolidation was required. It was concluded that consolidation did not compromise the independence of charities so from 2013/14 onwards, corporate trustee bodies have had to consider whether the NHS charity should be consolidated.

Since then, IAS 27 has been replaced by IFRSs 10, 11 and 12 so the tests for consolidation have changed slightly. This briefing has been updated to reflect the current accounting standards.

In this guidance, an NHS charity is defined as a charity which has an NHS organisation as its corporate trustee or where it has independent trustees but has a memorandum of understanding with an NHS body.

In addition, and separately, in September 2011, the Office for National Statistics (ONS) classified all NHS charities as central government bodies[1]. This means that, since 2012/13 all NHS charities, other than those with independent trustees, in England have been consolidated into the Department of Health and Social Care's (the DHSC) annual report and accounts, with the same happening in the devolved nations. This is regardless of whether there is local consolidation of the NHS charity into its corporate trustee's accounts.

IFRS 10, 11 and 12 requirements for consolidation

The appendix to IFRS 10 *Consolidated financial statement* defines a subsidiary as 'an entity that is controlled by another entity'.

Control of an investee is defined as being when 'the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee'.

Paragraph 7 of IFRS 10 states:

> 'Thus, an investor controls an investee if and only if the investor has all the following:
>
> a) power over the investee
> b) exposure, or rights, to variable returns from its involvement with the investee and
> c) the ability to use its power over the investee to affect the amount of the investor's returns.'

In practical terms, this means that when an NHS organisation is a corporate trustee, and the NHS charity is material to the NHS organisation then local consolidation is highly likely to be required. However, each NHS organisation and NHS charity will have to determine whether this is the case in their individual circumstance as set out below.

Power

Power is defined as 'existing rights that give the current ability to direct the relevant activities' where the relevant activities are the activities that significantly affect returns. It is enough that the rights exist, they do not need to be exercised. The fact that the NHS body has power over the NHS charity does not mean that the NHS charity does not have the ability to act independently, to meet the requirements of charity law it needs to do exactly that.

Where the NHS organisation is the corporate trustee, the governing body of that NHS organisation governs the financial and operating policies of the NHS charity. This is the case even where the governing body, as representative of the corporate trustee, has delegated decision making to a committee. Therefore, where there is a corporate trustee then the NHS body has the power to direct the activities of the charity.

[1] ONS, *Public Sector Classification Guide and Forward Work Plan*, accessed 7 June 2020

Where the trustees are independent of the NHS organisation then it is unlikely that the NHS organisation has the power to direct activities and therefore it does not have control. However, the precise arrangements may vary from body to body so this must be assessed by each individual NHS organisation.

Where there is a different arrangement, a local assessment of the governance arrangements should be undertaken to establish the extent of the power to govern.

Exposure to or rights to returns

Most NHS charities were registered with the Charity Commission in England and Wales in the 1990s and many used a model trust deed[2] produced at that time. This includes the following wording for the objectives of an NHS charity:

> 'The trustee shall hold the trust fund upon trust to apply the income, and at its discretion, so far as may be permissible, the capital, [either for the general or specific purposes of …….Trust or] for all or any charitable purpose or purposes relating to the National Health Service (hereinafter referred to as "the objects").'

Where the NHS charity trust deeds state that the objectives of the charity are for the general or specific purposes of a specific NHS organisation then it is clear that the beneficiary of the charity is that specified NHS organisation so the NHS body has the rights to the returns of the NHS charity.

Where the NHS charity trust deeds state that the objectives of the charity are for the general or specific purposes of the NHS in general then the NHS organisation may be a beneficiary of the charity and could therefore gain benefits from its operation.

It is important to review the objectives of the NHS charity to assess whether or not the benefit test is met.

Umbrella, group and linked registrations

Since the 1990s, there have been various approaches taken to the registration of NHS charities. This is because NHS charities often consist of lots of general and special purpose charities with similar objectives. The Charity Commission for England and Wales sought to minimise the administrative burden generated by using three main approaches to registration – umbrella, group and linked.

In all cases there should be an overarching charitable purpose. Where that purpose is for the benefit of the NHS organisation then the returns part of the control test is met.

In some cases, the overarching charitable purpose might be for the benefit of the wider NHS but one of the linked charities may have a purpose for the benefit of another specific NHS organisation. Where this is the case, consideration should be given as to whether that single linked charity should be excluded from the consolidation as the beneficiary is another NHS organisation. The worked example below includes a fund which is excluded from the consolidation for this reason.

NHS Charities Together Covid-19 emergency appeal

In March 2020, NHS Charities Together launched an emergency appeal in response to the Covid-19 pandemic[3]. The money raised (over £130m has been raised to September 2020) is being distributed to all NHS charities in the UK in three stages. Some of the funds distributed, mainly the stage 2 funds, will go to lead NHS charities for distribution to NHS bodies, the voluntary sector and social care providers[4]. This may require NHS charities to change their objectives – and this could have an impact on the assessment of the NHS corporate trustee's right to returns.

NHS reorganisation

[2] Charity Commission for England and Wales, *NHS charities guidance*, 2012
[3] NHS Charities Together, *Our Covid-19 Appeal in numbers*, August 2020
[4] NHS Charities Together, *Community partnership grants Q&As*, [accessed 9 September 2020] and HFMA, NHS charities and NHS charities part 2 webinars, May and September 2020

Where an NHS organisation that is a corporate trustee is subject to a reorganisation, the trustee arrangements are sometimes changed[5] although, usually, funds are transferred to the new NHS charity by grant[6].

Where such funds are transferred consideration should be given to whether there are any restrictions attached to the funds. Usually, unrestricted funds will be transferred as unrestricted funds, with a designation setting out how they should be used. As above, where there are restricted funds that can only be used for the benefit of patients of another NHS body, consideration should be given to whether these funds may be excluded from the consolidation.

Restricted funds

Most NHS organisations have restricted funds where a donation has been given for the benefit of a particular ward, hospital or clinic or even for the benefit of staff or patients. As these wards, hospitals and clinics will all be part of the NHS organisation; these funds will be for the benefit of the NHS organisation and should be included in the consolidation. The patients and staff are also part of the NHS organisation so these funds should be consolidated as well.

Ability to affect the returns

This goes hand in hand with the power to direct activities.

NHS bodies and more specifically, their patients are the beneficiaries of NHS charities. The decisions made by the corporate trustee will affect the amount that the NHS charity can give to the NHS body to benefit their patients. For example, the corporate trustee decides the investment policy for the NHS charity, and this will affect the returns on investment which will, in turn, affect the amount of money available to support the NHS body's work. The corporate trustee may decide that it should adopt an ethical investment policy which may limit the returns that can be made from investments.

Materiality

Where the requirements of IFRS 10 are met then consolidated financial statements should be prepared.

However, accounts need to be materially correct rather than absolutely correct. Where NHS charities are relatively small, it may be that their consolidation into the NHS organisation's accounts would not have a material impact, so consolidation is not necessary.

Materiality is assessed annually and will vary depending on the NHS organisation's accounts as well as the NHS charity's accounts. An NHS charity may become material if it receives a large legacy or grant income; similarly, it may become material if the NHS organisation is subject to re-organisation and loses a large part of its revenue. This may a particular issue in 2020/21 following Covid-19 emergency appeal by NHS Charities Together as NHS charities receive grants from that appeal.

As with the assessment of whether the IFRS 10 tests are met, materiality is something to be determined by each NHS organisation and then discussed with their auditor.

Even where it is agreed that the NHS charity is immaterial to the NHS organisation's accounts and will therefore not be consolidated, auditors may report this in their ISA(UK&I)260 report to the audit committee. It is important, therefore, to agree at an early stage that the audit committee is happy to accept this outcome. Appendix 1 includes a checklist of issues to discuss with auditors and the audit committee.

It may be that it is simpler to consolidate and implement the necessary systems rather than to re-assess the situation and re-evaluate the risks each year.

[5] DHSC, *Guidance on the acceptance, management and transfer of charitable funds for NHS bodies*, 2017
[6] Charity Commission for England and Wales, *section 5 of the NHS charities guidance*, 2012

Where it is decided that the NHS charity is not material to the NHS corporate trustee body meaning that consolidated accounts will not be prepared, paragraph 4.213 of the DHSC' *Group accounting manual 2020/21*[7] requires the following to be disclosed:

- the name of the charity
- the nature of the relationship with the trust and
- the basis for non-consolidation.

Practical issues to consider

Once the decision has been made that the NHS charity will be consolidated into the NHS body's accounts then there are several practical issues to consider before the year-end closedown process begins.

Timing

The deadline for the submission of NHS organisations' audited accounts is usually the end of May or early in June after the financial year end. In 2020/21 the deadline is 15 June – reflecting the impact of Covid-19 on accountants and auditors.

The deadline for the submission of NHS charities' accounts to the Charity Commission for England and Wales is 10 months after the year end (30 January of the following calendar year).

It will be for each NHS organisation's auditor to determine whether it is necessary for the audit of any subsidiary body's accounts to be completed and signed off before the parent body's accounts are signed or whether they can accept an auditable trial balance which they will audit to a level of materiality acceptable for the consolidated accounts. NHS organisations should discuss auditor's requirements with them at an early stage. Whatever is required, it is likely that at least some of the preparation and audit of the NHS charity's accounts will need to be brought forward to meet the NHS organisation's earlier deadline.

There may be things which can be done to reduce the burden on accountants and auditors between March and June for example:

- parts of the NHS charity's trustee report can be prepared before the year end and then simply updated to reflect the final year end position
- the template for the NHS charity's accounts[8] can be prepared in advance and the narrative parts of many notes completed before the year end
- auditors may prepare a list of the documents or working papers that they need to see ahead of the year end
- auditors may undertake an audit at month 9, 10 or 11 and then roll forward their work to the year end.

Some NHS organisations have moved the preparation of their NHS charity accounts forward incrementally over the past few years to prepare for the consolidation.

Different auditors

There is no requirement for the auditor of the NHS body and the auditor of the NHS charity to be the same[9]. In fact, some firms may not want to undertake the audit of both.

In this case, the auditor of the NHS organisation will issue group instructions to the auditor of the NHS charity. These group instructions will set out:

[7] DHSC, *DHSC group accounting manuals*, updated May 2020
[8] HFMA, *Example NHS charity annual report and accounts*, updated May 2020 (note: this will be updated for 2020/21 in early 2021)
[9] HFMA, *Accounting and auditing for NHS charities – the legal requirements*, 2017

- a programme of work that the NHS organisation's auditor (the group auditor) requires the NHS charity's auditor to complete
- the deadline for the completion of that work and
- the assurances required from the NHS charity's auditor.

It will be important to warn the auditor of the NHS charity that the accounts are subject to consolidation and to agree a new timetable for the audit of the NHS charity's accounts. The auditor of the NHS charity may want to re-negotiate their fee to reflect any additional work required by the group audit instructions.

Presentation to the audit committee

The audit committee will need to decide whether the consolidation of the NHS charity is material or not and, if it is considered not to be material, if the unadjusted error reported by the auditor is acceptable or not.

If it is determined that the NHS charity will be consolidated, then the audit committee will have to be briefed on the impact of preparing group accounts.

Undertaking the consolidation

There are several stages to go through when undertaking the consolidation.

Prior period adjustment

In 2013/14, the consolidation of NHS charities was a change in accounting policy as it was an HM Treasury requirement not to consolidate before then.

However, since then, the decision not to consolidate a corporate trustee is based on materiality so the first year of consolidation is driven by a change in the size of the NHS charity relative to the NHS body rather than a change in accounting policy.

Therefore, a prior period adjustment is not required in the first year of consolidation so in year adjustments will be required rather than adjustments to opening balances.

Align accounting policies

NHS charity accounts are prepared in accordance with the Charity Statement of Recommended Practice Financial Reporting Standard 102 (SORP FRS 102)[10] which reflects UK Generally Accepted Accounting Practice (UK GAAP). NHS organisations prepare their accounts under IFRS. The first stage in the consolidation is therefore to ensure that the accounting policies of the NHS charity are aligned with those of the NHS organisation.

Whilst NHS organisations have common accounting policies, there is no requirement for NHS charities to have common policies where SORP FRS 102 allows for a choice in policy. Therefore, this assessment needs to be undertaken based on the accounting policies adopted by each NHS charity.

However, there are some areas where there may be differences between the accounting policies of the NHS organisation and the NHS charity:

- grant making charities may expense the whole of the grant when it has created a valid expectation to the grant receiving body that it is awarding a grant. Paragraphs 7.17 to 7.24 of the SORP FRS 102 set out the conditions under which a funding commitment should be recognised, and paragraphs 7.25 to 7.27 discuss performance related grants. NHS bodies follow IAS 37 that requires a past event to trigger a requirement to pay. Where there are conditions attached to a grant which will only be met in the future, the conditions for recognising expenditure by establishing a provision may not be met

[10] Charity Commission for England and Wales, *Statement of Recommended Practice FRS 102*, October 2019

- the accounting treatment of leases between IFRS and UK GAAP will be different once NHS bodies adopt IFRS 16. At the moment, UK GAAP still requires lessors to recognise finance and operating leases
- where NHS charities hold tangible fixed assets, the SORP FRS 102 allows for them to be held at cost or revaluation. Most NHS charities adopt a policy of revaluation because, historically, their accounts were prepared in accordance with the DHSC's mandated policy to revalue. However, it is possible that this is a difference in accounting treatment.

Once all differences in accounting policy have been identified then the NHS charity accounts need to be restated to reflect the revisions.

Worked example

An NHS charity has the charitable objectives for the general purposes of the NHS. All of the general and restricted funds are for the benefit of the NHS, including the NHS organisation which is the corporate trustee. These funds will therefore be consolidated into the NHS organisation's accounts.

However, the endowment fund was transferred from a demising NHS trust and is for the benefit of a cottage hospital which is managed by another NHS organisation. It is held as a separate fund under the umbrella registration of the NHS charity. The objectives of the endowment are clearly for the benefit of the cottage hospital and therefore the NHS organisation which is the corporate trustee is not the beneficiary of the fund. As the fund is registered as a separate fund with the Charity Commission under the umbrella registration and as the charitable objects are very clearly for the benefit of the cottage hospital, rather than the wider NHS, it is agreed with the auditors that this fund will not be consolidated in either the corporate trustee's accounts or the NHS organisation which is the beneficiary. This is not expected to be a common situation.

A review of the accounting policies of the NHS charity has only identified one difference between the accounting policies of the NHS charity and those of the NHS organisation. The NHS charity provides for all grants as soon as it communicates their decision to the receiving body. Where the grant is subject to conditions, under IAS 37 the provision should only be made once the conditions (the 'past event') have been met.

Therefore, a provision for £500,000 which was part of a 3-year grant to fund a play-worker during the summer holidays has to be reversed prior to consolidation. The payment for the 2nd and 3rd year is only due once the past event (the employee is in post and has provided the sessions) has happened.

The Statement of Financial Activities (SOFA) and balance sheet need to be amended for these transactions.

Stage 1 : Restatement of accounting policies

Statement of Financial Activities

	General funds 2020/21 £'000	Restricted funds 2020/21 £'000	Endowment funds 2020/21 £'000	**Total** 2020/21 **£'000**	**Total 2020/21 restated £'000**
Incoming resources					
Incoming resources from generated funds					
- voluntary income	1,558	345		1,903	1,903
- activities for generating funds	500			500	500
- investment income	169		73	242	169
Incoming resources from charitable activities	123			123	123
Other incoming resources	24			24	24
Total incoming resources	**2,374**	**345**	**73**	**2,792**	**2,719**
Resources expended					
Costs of generating funds					
- costs of generating voluntary income	-431			-431	-431
- fundraising trading costs	-28			-28	-28
- investment management costs	-10		-172	-182	-10
Charitable activities	-1,890	-510	-201	-2,601	-1,900
Other resources expended					
Total resources expended	**-2,359**	**-510**	**-373**	**-3,242**	**-2,369**
Net incoming/(outgoing) resources before transfers	**15**	**-165**	**-300**	**-450**	**350**
Gross transfers between funds					
Net incoming/(outgoing) resources before other recognised gains/(losses)	**15**	**-165**	**-300**	**-450**	**350**
Other recognised gains/(losses)					
Gains and losses on revaluation of fixed assets for the charity's own use	20			20	20
Gains and losses on investment assets	120		363	483	120
Net movement in funds	**155**	**-165**	**63**	**53**	**490**
Total funds brought forward	11,826	5,017	40,123	56,966	16,843
Total funds carried forward	**11,981**	**4,852**	**40,186**	**57,019**	**17,333**

The endowment funds are for the benefit of another NHS body so are not included in the consolidation. The re-stated column is therefore the sum of the general funds and the restricted funds, further

Expenditure on charitable activities includes a provision for a three year grant of £750k to fund the provision of a play worker. The grant is conditional on the playworker being in post, therefore £500 needs to be added back to align with IAS37.
The endowment fund is also excluded.

Balance sheet	**31 March 2021 £'000**	**31 March 2020 £'000**		**31 March 2021 £'000**	**31 March 2020 restated £'000**
Fixed assets					
Tangible assets	1,020	1,000		1,020	1,000
Investments	52,376	52,103		12,190	11,980
Total fixed assets	**53,396**	**53,103**		**13,210**	**12,980**
Current assets					
Stock and work in progress					
Debtors	2,501	3,523		2,501	3,523
Short term investments	2,342	2,267		2,342	2,267
Cash at bank and in hand	26	1,803		526	1,303
Total current assets	**4,869**	**7,593**		**5,369**	**7,093**
Creditors: amounts falling due within one year	-1,246	-3,230		-1,246	-3,230
Net current assets/(liabilities)	**3,623**	**4,363**		**4,123**	**3,863**
Total assets less current liabilities	**57,019**	**57,466**		**17,333**	**16,843**
Creditors: amounts falling due after one year					
Provisions for liabilities and charges		-500			
Net assets	**57,019**	**56,966**		**17,333**	**16,843**
Funds of the Charity					
Unrestricted funds	11,981	11,826		12,481	11,826
Restricted income funds	4,852	5,017		4,852	5,017
Endowment funds	40,186	40,123			
Total funds	**57,019**	**56,966**		**17,333**	**16,843**

The endowment fund is entirely held in long term investments. Therefore, as this fund is not going to be consolidated, it is excluded from the restated balance sheet.

The grant for the playworker was expended in 2020/21 but as it was a three year grant, £500k was set up as a provision and £250k paid in cash. The provision is not IFRS compliant and is therefore reversed in the restated balance sheet.

Remove intra-group transactions

The second stage in the consolidation process is to remove any transactions between the NHS organisation and the NHS charity. These are likely to be:

- grant payments from the NHS charity to the NHS organisation

- assets donated by the NHS charity to the NHS organisation
- management charges paid by the NHS charity to the NHS organisation to cover staff and other administration costs.

There may also be year-end balances between the two bodies.

Worked example

There are a number of transactions between the 2 bodies, summarised as:

- all of the NHS charity's charitable payments were made to the NHS organisation of these payments, £2m is outstanding at the year end
- the NHS charity has paid £75,000 to the NHS organisation for management costs.

Stage 2a : Remove inter-group transactions from the SOCI

The SOFA has been rearranged so that the rows which are being consolidated line up.

The net incoming resources is the same as the restated SOFA.

NHS Charity Statement of Financial Activities for the year ended	**Total 2020/21 restated £'000**	***Transactions with NHS Org***	**NHS Organisation Statement of Comprehensive Income for the year ended**	**Total 2020/21 £'000**	***Transactions with NHS***	**Group Statement of Comprehensive Income for the year ended**	**Group Total 2020/21 £'000**
			Gross employee benefits	-124,949		Gross employee benefits	-124,949
- costs of generating voluntary income	-431	75	Other operating costs	-53,550		Other operating costs	-53,944
- fundraising trading costs	-28						
Charitable activities	-1,900	1,900					
- investment management costs	-10						
			Revenue from patient care activities	163,527		Revenue from patient care activities	163,527
- voluntary income	1,903		Other operating revenue	19,815	-1,900	Other operating revenue	20,390
- activities for generating funds	500				-75		
Incoming resources from charitable activities	123						
Other incoming resources	24						
			Operating surplus/(deficit)	4,843		***Operating surplus/(deficit)***	5,024
- investment income	169		Investment revenue	386		Investment revenue	555
			Other gains and (losses)			Other gains and (losses)	0
			Finance costs	-2,087		Finance costs	-2,087
			Surplus/(deficit) for the financial year	**3,142**		***Surplus/(deficit) for the financial year***	**3,492**
			Net gain/(loss) on transfers by absorption			Net gain/(loss) on transfers by absorption	0
			Public dividend capital payable	-4,008		Public dividend capital payable	-4,008
			Retained deficit for the financial year	-866		***Retained deficit for the financial year***	-516
			Other comprehensive income			**Other comprehensive income**	
Gains and losses on revaluation of fixed assets for the charity's own use	20		Net gain/(loss) on revaluation of PPE	-20,375		Net gain/(loss) on revaluation of PPE	-20,355
			Net gain/(loss) on revaluation of intangible assets			Net gain/(loss) on revaluation of intangible assets	0
Gains and losses on investment assets	120		Net gain/(loss) on revaluation of financial assets			Net gain/(loss) on revaluation of financial assets	120
			Net gain/(loss) on assets held for sale			Net gain/(loss) on assets held for sale	0
			Net gain/(loss) on available for sale financial assets			Net gain/(loss) on available for sale financial assets	0
Net incoming/(outgoing) resources before other recognised gains/(losses)	490		***Total comprehensive income for the year***	-21,241		***Total comprehensive income for the year***	-20,751
Total adjustments		**1,975**			**-1,975**		

Group total 'other operating costs' equals:
Costs of generating voluntary income 431
+ Fundraising trading costs 28
+ Charitable activities 1,900
+ Investment management costs 10
- the management charge from the organisation to the charity 75
- Charitable activities (from charity to the organisation) 1,900
+ Other operating costs 53,550

Note that the total of the adjustments made to the NHS charity equals the total of the adjustments made to the NHS organisation.

Group total 'other operating revenue' equals:
Voluntary income 1903
+ Activities for generating funds 500
+ Incoming resources for charitable activities 123
+ Other incoming resources 24
+ Other operating revenue 19,815
- Income from NHS charity 1,900
- Management charge 75

Stage 2a : Remove inter-group transactions from the SOFP										
NHS Charity Balance sheet as at			**NHS Organisation Statement of Financial Position as at**			***Intra-group transactions***		**Group Statement of Financial Position as at**		
	31 March 2020	**31 March 2021 restated**		**31 March 2020**	**31 March 2021**	**31 March 2020**	**31 March 2021**		**31 March 2020**	**31 March 2021 restated**
	£'000	**£'000**		**£'000**	**£'000**				**£'000**	**£'000**
Fixed assets			**Non-current assets**					**Non-current assets**		
Tangible assets	1,020	1,000	Property, plant and equipment	147,529	167,904			Property, plant and equipment	148,549	168,904
Investments	12,190	11,980	Investments	1,965	1,660	Reduce the NHS body's receivables by the amounts owed to it by the NHS charity.		Investments	14,155	13,640
			Trade and other receivables	479	322			Trade and other receivable:	479	322
Total fixed assets	**13,210**	**12,980**	***Total non-current assets***	**149,973**	**169,886**			***Total non-current assets***	**163,183**	**182,866**
Current assets			**Current assets**					**Current assets**		
Stock and work in progress			Inventories	1,009	1,597			Inventories	1,009	1,597
Debtors	2,501	3,523	Receivables	11,355	10,835		-2,000	Receivables	13,856	12,358
Short term investments	2,342	2,267	Short term investments					Short term investments	2,342	2,267
Cash at bank and in hand	526	1,303	Cash and cash equivalents	4,816	6,084			Cash and cash equivalents	5,342	7,387
Total current assets	**5,369**	**7,093**	***Total current assets***	**17,180**	**18,516**			***Total current assets***	**22,549**	**23,609**
			Current liabilities					**Current liabilities**		
Creditors: amounts falling due within one year	-1,246	-3,230	Trade and other payables	-20401	-19,736		2,000	Trade and other payables	-21,647	-20,966
			Provisions	-1,000	-749			Provisions	-1,000	-749
			Borrowings	-620	-658	Reduce the NHS charity's payables by the amount it owes to the NHS body		Borrowings	-620	-658
			Total current liabilities	-22021	-21,143			***Total current liabilities***	-23,267	-22373
Net current assets/(liabilities)	**4,123**	**3,863**	***Net current assets/(liabilities)***	**-4,841**	**-2,627**			***Net current assets/(liabilities)***	**-718**	**1,236**
Total assets less current liabilities	**17,333**	**16,843**	***Total assets less current liabilities***	**145,132**	**167,259**			***Total assets less current liabilities***	**162,465**	**184,102**
			Non-current liabilities					**Non-current liabilities**		
Creditors: amounts falling due after one year			Trade and other payables	-215	-157			Trade and other payables	-215	-157
Provisions for liabilities and charges	0	0	Provisions	-1513	-1,356			Provisions	-1513	-1356
			Borrowings	-34479	-35,580			Borrowings	-34479	-35580
Net assets	**17,333**	**16,843**	***Total assets employed***	**108,925**	**130,166**			***Total assets employed***	**126,258**	**147,009**
Funds of the Charity			**Taxpayers' equity**					**Taxpayers' Equity**		
Unrestricted funds	12,481	11,826								
Restricted income funds	4,852	5,017	Public dividend capital	57,131	57,131			Public dividend capital	57,131	57,131
Endowment funds			Retained earnings	-1,853	-987			Retained earnings	-1,853	-987
			Revaluation reserve	53,647	74,022			Revaluation reserve	53,647	74,022
								Charitable funds	17,333	16,843
Total funds	**17,333**	**16,843**		**108,925**	**130,166**	**0**	**0**		**126,258**	**147,009**

Published annual report and accounts and summarisation schedules

Consolidated annual report and accounts

The group annual report should meet the requirements of the DHSC's group accounting manual. The annual report should also include information about the NHS charity but could refer the reader to the NHS charity's report and accounts for more of the detailed information required by SORP FRS 102 in a trustee's report.

However, the preparation of group accounts will be different to the preparation and presentation of NHS organisation's stand-alone accounts. The main differences which should be considered are set out below. A list of the notes usually included in a set of accounts is included as appendix 2 to this guidance with an indication of how it will be affected by the consolidation.

Group accounts

It must be clear from the accounts that they apply to the group - the NHS organisation and its NHS charity and any other subsidiaries (IAS 1, paragraph 51b). The consolidation policy must be included in the accounting policies.

IFRS 10 defines consolidated financial statements as the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

The consolidated statements should therefore include group information for all four primary financial statements and associated notes for the group.

However, the *Companies Act 2006* requires the publication of the parent entity's separate accounts as well as the consolidated group accounts. Therefore, to practically meet both requirements, each of the four primary statements is presented with group columns and parent entity columns.

There is an exemption in the *Companies Act* that the parent entity's statement of comprehensive income to be omitted and NHS bodies are allowed to take advantage of that exemption[11].

The format of the group accounts should be discussed with the auditor and audit committee as soon as possible.

Reserves

On consolidation, a new charitable fund reserve will be included in the group accounts. There will need to be a description of the nature and purpose of that reserve (as well as the NHS organisation's other reserves) (IAS 1, paragraph 79b).

An additional note which analyses the charitable reserves between restricted, unrestricted and endowment is also required.

When preparing the statement of changes in taxpayers' equity, a line which reflects the adjustments made to the NHS organisation and the NHS charity's operating surplus or deficit will have to be made in order to reflect the NHS charity's closing balances. Unlike other consolidations, the reserves of the NHS charity are not consolidated with the reserves of the NHS organisation:

Statement of changes in Taxpayers' Equity					
	Public Dividend capital	**Retained earnings**	**Revaluation reserve**	**Charity reserves**	**Total reserves**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Balance at 1 April 2020	**57,131**	**-987**	**74,022**	**16,843**	**147,009**
Consolidated retained deficit for the year		-396			**-396**
Net gain / (loss) on revaluation of property, plant, equipment			-20,355		**-20,355**
Transfer between the charitable funds and retained earnings for the consolidation		-470	-20	490	**0**
Balance as at 31 March 2021	**57,131**	**-1,853**	**53,647**	**17,333**	**126,258**

Segmental reporting

Most NHS charities are managed through a charitable funds committee which then reports to the NHS organisation's governing body. The financial position of the NHS charity should be reported separately to the governing body throughout the year, to meet the regulatory requirement that the charity is independent of its corporate trustee and is therefore subject to a separate decision-making process. NHS organisations should consider whether the NHS charity will meet the definition of a separately reportable segment and the segmental reporting note should reflect performance of the NHS charity.

Related parties

Prior to the consolidation, the NHS charity was reported as a related party to the NHS organisation. After consolidation, this will no longer be the case and the NHS charity does not need to be included as a related party to the NHS organisation. However, where the NHS charity has transactions with other related parties then these transactions will need to be disclosed.

[11] DHSC, *DHSC Group accounting manual 2020/21 (paragraph 5.9)*, April 2020

Where any funds are not consolidated, for example the endowment fund for the cottage hospital in the worked example, these funds may still be related parties to the NHS organisation.

Financial instruments

Most NHS charities will have investments, and many have a different treasury management policy to that of the NHS organisation.

The investments will be financial instruments and should be appropriately classified in accordance with the IFRS 9 classifications. The classification will determine the appropriate accounting treatment.

IFRS 7 requires narrative disclosures which discuss the risks around the use of financial instruments. In essence, the risks around the entity's treasury management policies should be disclosed requiring this note to be re-drafted to reflect the NHS charitable funds as well as the NHS organisation's own funds.

Financial performance

NHS England and NHS Improvement (NHSE&I) will assess the financial performance of NHS organisations prior to the consolidation of NHS charities. Therefore, any notes which disclose the financial performance of the NHS organisation should be on an unconsolidated basis and this should be made clear in the narrative part of the note.

Non-controlling interests (minority interests)

Where a subsidiary is not wholly owned by an organisation, the consolidated accounts should disclose the non-controlling interests in each of the primary statements.

In the case of the consolidation of NHS charities, the corporate trustee will be the sole trustee of the NHS charity and therefore there is no non-controlling interest, and these disclosures are not required. Even in the case of the endowment fund for the cottage hospital in the worked example there would be no minority interest as these funds are not consolidated at all because of the nature of the charity registration and the fact that the IFRS 10 tests are not met.

Donated assets

In the NHS organisation's accounts, property, plant and equipment funded by donations from the NHS charity will be disclosed as donated assets. In the group accounts, these assets will be purchased assets as they have been purchased by the NHS charity which is part of the group.

Subject to agreement with auditors, it may be more practical to rename donated assets something like assets purchased using charitable donations so that they can be separately identified and linked to the asset register. The NHS organisation will need to be able to separately identify assets purchased by the NHS charity so they can be excluded from the PDC dividend calculation.

Charity Commission for England and Wales requirements

The NHS charity's report and accounts must continue to be submitted as a separate document to the Charity Commission for England and Wales.

The annual report element of this document must meet the requirements of SORP FRS 102. The accounts will be those of the NHS charity in accordance with SORP FRS 102.

NHS summarisation schedules

The TAC forms used by NHSE&I to prepare the consolidated provider bodies' accounts include specific instructions in relation to subsidiary bodies including NHS charities. It is important to read any guidance which is issued with any summarisation schedules to understand what information is being collected.

The agreement of balances exercise excludes all NHS charities whether or not they are consolidated.

The DHSC is required by the ONS to consolidate all NHS charities into their consolidated accounts so information will be collected via the TAC forms to collect this information for all NHS charities whether they are consolidated into the NHS body's accounts or not.

Appendix 1 – consolidation checklist/agenda for discussion with auditors and audit committee

Action	By whom?	Deadline
Review trustee arrangements		
Review charitable objectives		
Conclude on whether IFRS 10 tests are met		
Consider materiality		
Discuss consolidation with auditors		
Discuss and agree consolidation with audit committee		
Develop closedown timetable with auditors		
Agree working paper requirements for NHS organisation and NHS charity		
Review accounting policies and transactions		
Determine adjustments required to align accounting policies		
Present revised accounting policies to audit committee		
Review inter-group transactions		
Develop disclosures for: • Group accounts • Accounting policy • Segmental reporting • Related parties • Financial instruments		
Agree template accounts and proposed disclosures with auditors		
Agree proposed disclosures with audit committee		
Consider communications with stakeholders		

Appendix 2 – effect of consolidation on notes to the accounts

Accounting policies	Will be affected - discussed in the guidance above
Segmental reporting	Will be affected - discussed in the guidance above
Revenue from patient care activities	Unlikely to be affected
Other operating revenue	Will be affected as group transactions are removed
Operating expenses	Will be affected as group transactions are removed
Employee benefits	Unlikely to be affected as NHS charities rarely employ staff directly
Operating leases	Unlikely to be affected
Investment revenue	May be affected as NHS charities hold investments
Other gains/losses	Unlikely to be affected
Finance costs	Unlikely to be affected
Property, plant and equipment	Will be affected - discussed in the guidance above
Intangible assets	Unlikely to be affected
PFI and finance leases	Unlikely to be affected (as NHS charities are unlikely to enter into finance leases or PFI schemes)
Inventories	Unlikely to be affected
Trade and other receivables	Will be affected as group transactions are removed
Financial assets	May be affected as NHS charities hold investments
Cash and cash equivalents	Will be affected
Non-current assets held for sale	Unlikely to be affected
Trade and other payables	Will be affected as group transactions are removed
Financial liabilities	Unlikely to be affected
Borrowings	Unlikely to be affected
Finance leases	Unlikely to be affected
Provisions	Will be affected - discussed in the guidance above

Financial instruments	Will be affected - discussed in the guidance above
Related party transactions	Will be affected - discussed in the guidance above
Financial performance	Will not be affected but will need some additional narrative disclosure
Intra government balances	Unlikely to be affected
Pooled budgets	Unlikely to be affected
Better payment practice code	Will be affected as the NHS charity's payment performance will be included
Losses and special payments	Unlikely to be affected

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For 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.

© Healthcare Financial Management Association 2021. All rights reserved.

While every care had been taken in the preparation of this briefing, the HFMA cannot in any circumstances accept responsibility for errors or omissions, and is not responsible for any loss occasioned to any person or organisation acting or refraining from action as a result of any material in it.

HFMA

1 Temple Way, Bristol BS2 0BU

T 0117 929 4789

E info@hfma.org.uk

Healthcare Financial Management Association (HFMA) is a registered charity in England and Wales, no 1114463 and Scotland, no SCO41994.

HFMA is also a limited company registered in England and Wales, no 5787972. Registered office: 110 Rochester Row, Victoria, London SW1P 1JP

www.hfma.org.uk