HFMA response
February 2020

Group accounting manual 2020/21 consultation

Response

Who are we

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff working in healthcare. For 70 years it has provided independent support and guidance to its members and the wider healthcare community.

It is a charitable organisation that promotes the highest professional standards and innovation in financial management and governance across the UK health economy through its local and national networks. The association analyses and responds to national policy and aims to exert influence in shaping the healthcare agenda. It also works with other organisations with shared aims in order to promote financial management and governance approaches that really are 'fit for purpose' and effective.

The HFMA is the biggest provider of healthcare finance and business education and training in the UK. It 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 association is also an accredited provider of continuing professional development, delivered through a range of events, e-learning and training. In 2019 the HFMA was approved as a main training provider on the Register of Apprenticeship Training Providers and will be offering and developing a range of apprenticeships aimed at healthcare staff from 2020.

1. Do you have any comments regarding the HM Treasury interpretations and adaptations for IFRS 16?

No. We commented on these interpretations and adaptations when they were published.

2. Do you have any comments regarding the guidance offered in the GAM for entities acting as a lessee under IFRS 16?

Paragraph 4.408 refers to the fact that HM Treasury will provide a discount rate for leases commencing in the 2021 calendar year in December 2020 – this will mean that business cases, plans and budgets will have to be based on the nominal discount rate for the previous year where it is not readily determinable from the lease. Any change in discount rates could result in a cost pressure (or benefit) that will have to be managed in a very short period particularly for leases entered into during the first three months of the calendar year as these are the last three months of the financial year.

It would be helpful if the thought process in example 2 on page 229 could be expanded. On first read, it could be applied to pretty much any asset as their purpose can rarely be changed – an X-ray machine can only take X-rays for example. Working through the flow chart set out in the standard and expanding on how the conclusion that the contract does not contain a lease would be helpful and could be applied more widely.

3. Do you agree or disagree with the accounting policy approach mandated in the GAM in which DHSC Group bodies must adopt and exercise a low value lease exemption threshold of £5,000?

We agree that this seems logical given that NHS bodies have a capitalisation threshold of £5,000 so there is consistency between purchased assets and leased right of use assets.

4. Do you agree or disagree with the accounting policy approach mandated in the GAM of not applying IFRS 16 to other intangible assets not covered by paragraph 3 (e) of the Standard?

We understand that it is unlikely that many NHS bodies would want to apply IFRS 16 to those intangible assets not already covered by paragraph 3e of the standard so it makes some sense to mandate that it should not be used. However, we are concerned that there is a widening mismatch between NHS funding and accounting particularly in relation to IT/ digital contracts which, more and more, are revenue in nature. This causes difficulty when capital funding is made available. By mandating that IFRS 16 cannot be applied to intangible assets there is less scope for capitalising spend on IT/ digital contracts.

Ideally, funding would be provided without a capital or revenue label. This would allow for NHS bodies to identify the most appropriate and best value for money arrangement for them. The accounting could then be determined based on the arrangement in place and then the funding could come from either revenue or capital resource to match the accounting. However, we understand that government budgeting does not work this way.

While we accept that this interpretation of IFRS 16 makes logical sense, we would like there to be a wider conversation about the current and increasing tension between accounting and funding that could result in less than optimal decisions being made.

5. Do you have any comments regarding the guidance offered in the GAM for entities acting as a lessor or intermediary lessor under IFRS 16?

The guidance is very complex and would be much easier to understand with the use of a illustrative examples.

6. Do you have any comments regarding the guidance offered in the GAM concerning disclosure requirements under IFRS 16?

It is not clear what paragraph 4.645 means – does it mean that all of the information required in the summarisation schedules does not necessarily have to be reported in the annual report and accounts? If so, this needs to be discussed with local auditors as there have been discussions in the past about whether the fact that the summarisation schedules and the annual report and accounts need to be consistent actually means that they need to be the same.

7. Do you have any further comments regarding IFRS 16 application described in the GAM?

The GAM covers IFRS 16 in three main places:

- Paragraphs 4.153 to 4.162
- Chapter 4 annex 1
- Chapter 4 annex 11

It is also referred to in other places in the GAM. It would make it simpler for the user and preparer of the GAM if reference could be made to annex 11 in the rest of the GAM so there is only one place to refer to and the guidance is only included once. There is a risk that as the GAM is updated, inconsistencies will be introduced as guidance is updated in one place but not another.

8. Do you have any comments on the changes made to the guidance relating to the Performance Report in Chapter 3 of the GAM?

Paragraph 3.18 states that the performance overview should be no more than 10 to 15 pages – we suggest that this should be revised to say that it should be between 10 to 15 pages. The statement that the lay user need look no further into the rest of the annual report and accounts other than in specific circumstances does rather call into question the purpose of the rest of the document. It might be better to say that this overview should be sufficient for the reader to assess whether they might want to look into the detail of the document.

Paragraphs 3.20 and 3.21 state that long-term trend data should be used where appropriate. It is not clear how long the trend data should be provided over. For some NHS bodies, for example, the recently merged CCGs or provider bodies long-term data will not be available but for others, it will be, but 10 years worth of data may mask recent performance or trends. It would be helpful if the GAM could include some guidance on the terms over which trend data should be provided or, at least, the issues that NHS bodies should consider when compiling such data.

The second bullet point of paragraph 3.22 states that if unit costs are central to decision making then they should be disclosed. NHS provider bodies collect PLICS data which are used to make decisions and are important when assessing the value of healthcare procedures. These cannot be disclosed in the annual report and accounts. It would be helpful if this requirement could be clarified in the context of the information that NHS bodies collect.

9. Do you have any comments on the changes made to the guidance relating to the Governance statement in Chapter 3 of the GAM?

The sixth bullet point of paragraph 3.36 would be more helpful if it provided examples of the requirements for NHS bodies. NHS providers and CCGs are not required to comply with the central government Corporate Governance Code or the Orange Book.

10. Do you have any comments regarding the guidance provided in relation to the staff turnover disclosure requirement in Chapter 3 of the GAM?

As for all CCGs and NHS providers, except one, this information is available from the NHS Digital workforce statistics we suggest that the final sentence of paragraph 3.71e should say that they should (rather than are able to) refer to the website. This will make it very clear that for those bodies this requirement is met by an additional sentence in their staff report.

For those entities that are not covered by the workforce statistics it is not clear how they will meet this disclosure requirement without additional data collections. If an additional data collection would be required does that mean those entities can simply explain that this is the reason they are not complying with this requirement?

11. Do you have any comments regarding the guidance provided for the provision of staff engagement indicators in Chapter 3 of the GAM?

Paragraph 3.71f says that those entities that do not participate in the civil service people survey should provide similar indicators. It would be helpful if this referred to the NHS staff survey as that is presumably the NHS equivalent.

12. Do you have any further comments in relation to Chapter 3 of the GAM?

Paragraph 3.26 (first bullet) and paragraph 3.92 a(v) contain a reference to paragraph 0 that need to be updated.

It is not clear what paragraph 3.28 means.

In paragraph 3.34 the reference to NHS foundation trusts is not needed as they are not required to follow this chapter of the GAM.

We suggest that the reference to all organisations in paragraph 3.46 should be all DHSC group organisations. A GP working part time for a CCG and part time for a practice would not expect that their salary relating to the practice would be included in the remuneration report. Similarly, a senior manager working part time for the NHS and part time for a private company would not provide details of their private income for inclusion in the staff report.

Paragraph 3.71d requires NHS bodies to report on staff sickness. However, the information is not available until after the draft accounts have been submitted. This is an issue that is raised in our year-end surveys each year as it is an added complication in a very tight close down period. It would be helpful if consideration could be given to publishing the data for a different period (say, perhaps, the calendar year) – while this would mean the trend data would not be quite comparable it is unlikely to make a big difference to the reported performance.

Paragraph 3.71g and paragraph 3.99 refer to the company – this should be the DHSC group body.

Paragraph 3.71k refers to off-payroll engagements. The arrangements relating to IR35/off-payroll arrangements will be amended from 1 April 2020 – mostly this affects the private sector but there are some implications for the public sector. It is unlikely that the new arrangements will affect the disclosures in the staff report, but it may affect chapter 3 annex 4.

Paragraph 3.94h should refer to paragraphs 3.94a to g rather than the bulleted disclosures

13. Do you have any comments on other changes made to the GAM?

No

14. Do you have any other general comments on the draft GAM?

Paragraph 1.4 of the draft GAM states that DHSC group bodies must ensure that they are familiar with IFRS standards. It would be helpful if the fact that those bodies can access the full standards via the EY portal was referenced here. Following discussions at our Accounting and Standards Committee, we also suggest that it is made clear that the GAM, and other guidance on accounting standards, supplements the standards themselves and should not be read in isolation.

Paragraph 1.12 refers to the Charities SORP and update bulletin. In October 2019, a second edition of the SORP was published which includes the amendments made by both update bulletins. As the second edition of the SORP is applicable for periods starting on or after 1 January 2019, this is the edition that should be referred to in the GAM 2020/21.

Paragraph 2.6 states that the accounts of the DHSC group must comply with EU adopted IFRS. This would be clearer if it referred to EU adopted IFRS as adapted and interpreted by HM Treasury via the Financial Reporting Manual.

Chapter 2, annex 1, paragraph 2.50 sets out the Companies Act 2006 requirements applicable to NHS bodies. There is no reference to the Companies (Miscellaneous Reporting) Regulations 2018 which apply to financial years beginning on or after 1 January 2019. The regulations require companies to make additional disclosures in their directors' report about how they promote the success of the company for the benefit of its members, their governance arrangements and executive pay. These disclosures may not be directly applicable to the public sector, but it would be helpful to know how, or if, they will be interpreted in the FReM and/or GAM. The same applies to the Companies (Directors' Report) and Limited liability Partnerships (Energy and Carbon Report) Regulations 2018 that came into force for companies from 1 April 2019.

Chapter 2: CCG appendix 1 sets out the performance measures that CCGs are required to report in note 42. We understand that these are the statutory performance measures that CCGs are required to meet. It would be helpful to the reader of the account if this note included some narrative that explains how this note reconciles to the statement of comprehensive net expenditure and statement of changes in taxpayers' equity. We understand that CCGs are, in some cases, allowed to draw down surpluses made in previous years or repay deficits incurred in previous years – how this works is not clear from the accounts. This links to the requirement in paragraph 3.32 to disclose a trend analysis showing spend in the budgeting currencies relevant to the entity.

Paragraph 4.51 refers to the IFRS 15 application guidance published by HM Treasury. It would be helpful for some NHS bodies if there was additional guidance on whether, and if so how, IFRS 15 should be applied to research and development income/grants. We understand that discussions are on-going in Scotland about how these arrangements should be accounted for so it would be helpful if a common approach could be taken across the whole of the NHS.

Paragraph 4.121 refers to IFRIC 4 which is no longer applicable in 2020/21.

Consideration should be given to including reference to ICSs and STPs in chapter 4 annex 8. As the planning guidance for 2020/21 makes it clear that the NHS should be working on a system by default or system first basis it is likely that system wide transactions and arrangements will be entered into. It is likely that the guidance provided in this annex will be equally applicable to those transactions. If nothing else, we suggest that paragraphs 4.492 and 4.493 are moved to the start of the annex.

We suggest that guidance on the element of the employers' pension contribution that is currently being paid for by NHS England is included, or at least referred to, in paragraphs 5.41 of the 2020/21 GAM. It can then be withdrawn in 2021/22 if the arrangements change.

The guidance in paragraph 5.148 is unclear. The second bullet point refers to a target, but it is not clear what this target is – is it the thirty day target referred to in paragraph 5.139? The third bullet

point uses the phrase ‘invoices paid against invoices that should have been paid’ which is difficult to understand – we suggest this is amended to invoices that have actually been paid against invoices that should have been paid.

15. Do you consider any of the IFRS amendments effective for 2020-21 as requiring any further explanation in the GAM?

No

If you would like to discuss any of our comments in more detail please contact Debbie Paterson, policy and technical manager, debbie.paterson@hfma.org.uk