



HFMA's response to the consultation on the DHSC's Group Accounting Manual 2021/22¹

Who we are

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 Hub is made up of a number of networks that represent all sectors of the NHS. All mental health providers in England subscribe to the HFMA's Mental Health Network, giving a rounded perspective on relevant issues.

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

¹ DHSC, *Changes to DHSC group accounting manual 2021 to 2022*, February 2021

which was launched in 2017 and has already established strong learner and alumni networks.

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

We note that 'refinement of the HM Treasury guidance is ongoing' and that these will be reflected in any draft of the 2022/23 GAM consulted on in 2022. Where decisions are made about the application of IFRS 16, we hope that guidance for NHS bodies will be issued prior to the 2022/23 GAM by updating the IFRS 16 supplement.

We expect that there will be practical difficulties in relation to the fact that the treatment of irrecoverable VAT differs for purchased and leased assets. This will mean that VAT will need to be coded differently when invoices are processed which will require additional processes and training for appropriate staff. It will also mean that care will need to be taken when developing business cases that consider both a purchase and a lease option for a new asset.

Do you have any comments regarding the transition to an IFRS 16 measurement basis for the valuation and disclosure of PFI liabilities in alignment with IFRS 16 adoption across the public sector in 2022 to 2023?

Our main concern is the timing of the publication of the application guidance on the implementation of the changes to accounting for PFI arrangements. As affected NHS bodies, will need to revisit and revise their PFI models they will need as much time as possible to apply the guidance and understand the impact over the rest of the life of the scheme.

Do you have any comments regarding the guidance offered in the group accounting manual for entities acting as a lessee under IFRS 16?

The guidance is very helpful, but we have identified some areas where it could be clearer:

- paragraph 2.4, third bullet point – it is not clear what is meant by 'post transition, existing arrangements can have a CDEL impact'. The previous sentence states that there will be an impact when there is a modification of the lease or remeasurement of the lease liability. It would be helpful if any other changes that could have a CDEL impact were listed so this final sentence can say that 'in these circumstances, post transition, existing arrangements will have a CDEL impact.'
- in paragraph 3.23, there are references to specific paragraphs in the FReM. As this guidance is provided in paragraphs 4.154, 4.155 and 4.158 of the GAM 2021/22 (so we assume will be included in the 2022/23 GAM) it would be helpful if those references could be provided as NHS finance teams do not usually expect to have to refer to the FReM directly.

Do you agree or disagree with the accounting policy approach mandated in the group accounting manual 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.

As we have raised before, 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.

Do you have any comments regarding the guidance offered in the group accounting manual for entities acting as a lessor or intermediary lessor under IFRS 16?

It would be helpful if paragraph 3.120 could be expanded to provide more detail on when or how a lease might be modified – the inclusion of the IFRS 16 definition would be sufficient ‘a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).’

It would be helpful if example 3 on page 25 could also include an example where the sub-lease was for only part of the asset, in this case perhaps only half of the 2nd floor. The first paragraph had to be re-read to understand the example – that may simply be reader-error.

Paragraph 3.127 refers to paragraph 3.85, which does not seem to be correct and there is embedded link to the correct paragraph.

Do you have any comments regarding the guidance offered in the group accounting manual concerning disclosure requirements under IFRS 16?

No.

Do you have any further comments regarding IFRS 16 application described in the group accounting manual?

The guidance on sale and leaseback arrangements, paragraphs 3.6 to 3.13, is not very easy to understand. It would be helpful if an example could be included. In particular:

- it is not clear what bullet point one of paragraph 3.7 means – where the whole of an asset is subject to a sale and leaseback then is the right of use asset measured at the previous carrying amount for that asset, so the proportion is 100%?
- equally, paragraph 3.11 refers to the accounting treatment if a sale and leaseback is not actually a sale in accordance with IFRS 15. It is not clear what the IFRS 16 impact is – it seems to imply that where the arrangement does not meet the requirements of IFRS 15 for a sale, then it is in essence, a financing arrangement with no transfer of the asset so no lease. An example would help provide clarity.

We have the following minor comments on the guidance:

- paragraph 3.30 seems to be missing a word between ‘or’ and ‘a rate’ – perhaps ‘that depend on an index rate or other variable rate’?
- paragraph 3.57 refers to 3.38 but it should refer to paragraph 3.42 (the link goes to the correct paragraph)
- there is a typo in paragraph 3.68 – therefore is not
- paragraph 3.73, it would be helpful if some indication of when this would be an issue could be provided. Is it an issue for leases that have an inception date in 2021/22 but the commencement date in 2022/23?
- there is a typo in paragraph 3.75 – by the lessor
- the reference to the HM Treasury application guidance in paragraphs 3.85 and 3.91 are not needed as the DHSC guidance is complete. Equally, paragraphs 3.92 and 3.93 repeat what has already been said and are not needed
- the reference in paragraph 3.105 to paragraph 3.50 should be to paragraph 3.54 (the link goes to the correct paragraph)
- the links in paragraphs 3.184 and 3.185 no longer work.

Do you have any comments on the revised disclosure requirements relating to fair pay that are described in the FReM and replicated in chapter 3 of the group accounting manual?

Paragraph 6.5.19 of the FReM states that for each of:

- salaries and allowances
- performance pay and bonuses payable
- non-cash benefits

The percentage change from the previous financial year in respect of the highest paid director and the employees of the entity as a whole must be disclosed.

It would be helpful if an illustrative table could be included to make it clear that this means six percentages should be disclosed or a single percentage change for the sum of the three parts of the remuneration package. Paragraph 3.105 of the GAM implies that it is simply the percentage change for the sum of the three parts of the remuneration package that need to be disclosed – it is not a clear replication of the FReM.

Paragraph 6.5.27 of the FReM provides a reference to the Hutton guidance published in 2012/13. Paragraph 3.116 of the GAM specifically says that this guidance has been superseded which is helpful. The FReM should be revised to remove this reference as well.

Paragraph 6.5.26 of the FReM states that for departments, the calculations should exclude arm’s length bodies within the consolidation boundary. It would be helpful if guidance could be included in the GAM about whether NHS provider bodies should exclude subsidiary bodies from this disclosure in the same way or whether they should be included.

Do you have any comments on the guidance provided in relation to the revised fair pay disclosure requirements in chapter 3 of the group accounting manual?

Paragraph 3.108a requires the percentage change from the previous financial year in respect of the highest paid director. It is highly likely that the highest paid director in each year will be the same individual or, at least, the same role. However, if the highest paid director post changes between years it is not clear whether the percentage change should be calculated based on the same post or

role in the previous year or the highest paid director in that year. While unusual, it may be possible that one year the medical director is the highest paid director but the next it is the chief executive - it would be helpful if some guidance could be provided in this instance as it would seem odd to calculate the percentage change between two different roles.

It would be helpful if cross references could be provided between paragraph 3.108b and paragraphs 5.58 and 3.117 that provide guidance on the staff costs disclosures. Presumably, the same salary and wages figure should be used in all three places and, if not, additional guidance is needed along with a requirement to include narrative disclosure to explain why different numbers have been used.

Paragraphs 3.106 and 3.109 should say – ‘the requirement to provide a prior year comparative is best practice rather than mandatory’.

Do you have any further comments in relation to chapter 3 of the group accounting manual?

It would be helpful if paragraph 3.198 could be clearer on whether the six-month contract duration that applies to existing off payroll engagements does not apply to off-payroll engagements made in the financial year.

At our pre accounts planning conference in early February, there was some discussion about how the CETV disclosures (paragraph 3.144) should be dealt with when a staff member is working for two NHS bodies or when they are newly appointed as a director. While salary can be apportioned or pro-rated based on the time in post for that organisation, the CETV value represents the pension transfer value at a point in time based on the individual's total membership of the NHS pension scheme which is highly likely to be much longer than their time in a senior role. It does not therefore seem reasonable to pro-rata or apportion the CETV value between the time that the individual was a director and the time that they were not. It would be helpful if the GAM could provide some guidance or indicate that this is for NHS bodies to decide locally and provide narrative to explain.

We made a number of comments in relation to the 2020/21 GAM that we would like to raise again:

- we suggest that the reference to all organisations in paragraph 3.79 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 3.117d 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. As the data is provided by the DHSC to NHS bodies, and it is needed for the consolidated DHSC accounts, perhaps it could be published in the group accounts and then separately by the NHS bodies on their website rather than in their annual report and accounts.
- paragraph 3.117c refers to the company – this should be the DHSC group body.
- paragraph 3.151h should refer to paragraphs 3.151a to g rather than the bulleted disclosures. It is probably too early for this amendment to be made, but consideration should be given to including a reference to the fact that the disclosures required by paragraph 3.151a to g relate to any defined benefit scheme – most senior managers in the NHS will belong to that scheme (or will have withdrawn from it) but as we move towards integration, it may be that there will be senior managers who are members of local government pension schemes and these disclosures will be equally applicable to them.

Do you have any comments on other changes made to the group accounting manual?

No

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

One of the issues that has been raised by our members in recent years is the amount of work that auditors undertake in relation to going concern. Partly this is to do with auditing standards, and we expect that the recent update to *Practice note 10* may help in this regard.

However, we understand that at least one audit firm has indicated that the requirement in paragraph 4.24 of the GAM to disclose any material uncertainties that cast significant doubt on the going concern ability of the entity followed by the example in paragraph 2.25 means that they must undertake more work in this area. This was particularly the case in 2019/20 when the financial planning regime was suspended so no NHS bodies had signed contracts in the year. It may continue to be an issue in 2020/21 as it is unlikely that contracts will be in place before the end of the audit.

Paragraph 4.20 states that DHSC group bodies must prepare their accounts on a going concern basis unless informed otherwise and, to our knowledge, no NHS bodies have prepared their accounts on a non-going concern basis – it is therefore unlikely that there would be material uncertainties around going concern the going concern basis of accounting even without signed contracts. A lack of signed contracts may impact on the NHS body's financial sustainability which is slightly different. We suggest that paragraphs 4.24 and 4.25 are either deleted or these paragraphs are moved to the performance analysis part of the GAM, for example, paragraph 3.39.

We commented above, that references to the FReM should be replaced with internal references to the GAM where possible to make application more straightforward for readers. However, we note that paragraph 4.193 of the GAM refers to FRS 102 in relation to heritage assets – in that case, it may be clearer to refer to paragraphs 10.1.34 to 10.1.39 of the FReM. It is highly unlikely that NHS bodies will need to refer to either, but if they do the guidance in the FReM will be more familiar than FRS 102.

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