Group accounting manual 2019/20

Consultation response

Who are we

The Healthcare Financial Management Association (HFMA) is the representative body for finance staff in healthcare. For the past 60 years, it has provided independent and objective advice to its members and the wider healthcare community. We are a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through our local and national networks. We also analyse and respond to national policy and aim to exert influence in shaping the wider healthcare agenda. We have a particular interest in promoting the highest professional standards in financial management and governance and are keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

Our comments

6. Do you have any comments regarding the current set of HM Treasury interpretations and adaptations in the IFRS 16 supplement?

We have a number of questions and comments on the supplement:

- paragraph 3.5 states that in a sale and leaseback transaction, both parties are required to apply paragraphs 99-103 of the standard. This is true where both parties apply IFRS 16, but NHS bodies sometimes enter into sale and leaseback transactions with organisations such as NHS charities and subsidiaries which apply FRS 102. It would be useful if guidance could be given on the accounting in these circumstances
- paragraph 3.7 could be made clearer if instead of saying 'seller and lessee' the words 'the seller, who is also the lessee' and the same for the second bullet point
- paragraph 3.9 could say 'If the transaction does not meet the requirements of IFRS 15 then it is not a sale and leaseback. It is a financing transaction which means that …'
- paragraph 3.17, bullet point two – it would be helpful to understand when HM Treasury will publish the incremental borrowing rates. NHS bodies will need access to these rates throughout the financial year to be able to budget for leases as they enter into them. If the

rates will not be made available, then the practical implications of adopting this interpretation need to be considered

- paragraph 3.17, bullet point three:
  - the phrase ‘known misapplication’ is not clear, does it include the failure to review leases against IAS17 and IFRIC 4? Known misapplication implies some intent
  - a worked example of a prior period adjustment followed by the application of IFRS 16 would be useful
- paragraph 3.17, bullet point four – some clarification of what ‘the elimination of any revaluation reserve associated with existing finance leases’ means
- paragraph 3.18, in relation to peppercorn leases, it would be helpful to provide additional guidance in relation to how the existing use value of the right of use asset is to be determined when the lease is relatively short (less than the expected useful life of the asset itself)
- paragraph 3.18, bullet point seven sets out how peppercorn leases classified as operating leases should be recognised. Some guidance as to whether there is any impact on such lease classified as finance leases would be useful
- paragraph 3.54 is not clear. The grouped asset concept used in the NHS is similar to the interrelated concept in IFRS 16. What is the practical implication of the differences?
- paragraph 3.57 – does this mean that leases short life and low value assets still need to be classified as leases so that appropriate disclosures can be made
- paragraph 3.61, bullet point two – this should say ‘rather than’ not ‘than’
- paragraph 3.70, bullet points three and four need further explanation
- paragraph 3.94 should refer to the templates that NHSI and NHSE produce
- paragraph 4.11:
  - the accounting policies will be read by people who are not financial experts and who may not have access to accounting standards. We suggest that the references to paragraphs in IFRS 16 should be removed
  - the example accounting policy states that the standard applied to reporting periods beginning on or after 1 January 2019 – should this now be 1 January 2020?

7. Do you have any comments regarding issues that exist in employing a revaluation approach to subsequent measurement of a right of use asset?

As the revaluation model is used for assets accounted for under IAS 16, it seems logical to apply the revaluation model to right of use assets. However, we are concerned that there are practical implications. In our experience the application of the revaluation model to property, plant and equipment is not straightforward and it is not clear how it would apply to the right to use an asset.

While practical concerns should be set aside when considering the most appropriate accounting treatment, consideration needs to be given to benefit adopting this approach in terms of the usefulness of the financial statements.

8. Do you have any comments regarding what additional detail could enhance the guidance offered in respect of IFRS 16 application?

Our members have raised lots of practical questions about how the standard will apply to common scenarios in the NHS. For example, void space arrangements between CCGs and NHS Property Services Ltd, managed service contracts and lease cars. Another area of concern is how asset lives are to be assessed on leases which are renewed annually as this is a common approach in the NHS for leases between NHS bodies. Some guidance or NHS specific application examples would be really useful.

In relation to leases between NHS bodies some guidance on how these will be eliminated as part of the preparation of the group accounts would be very helpful. Although this will not be an issue until the end of 2020/21, it would be helpful to understand what data might be needed so this can be included in the lease management and data collection systems being established at the moment.

9. Do you have any comments on the changes made to the remuneration reporting guidance?

The HFMA has welcomed the opportunity to be part of the working group looking at the remuneration reporting guidance. In our annual year-end survey, remuneration reporting has consistently been one of the top 5 topics that respondents identified for more guidance. We therefore welcome these changes as they add clarity to the existing guidance.

10. What other areas of remuneration reporting do you feel requires additional guidance?

At our recent pre-accounts planning conferences, a number of questions were raised in relation to remuneration reports:

- how should the CETV pension disclosures be dealt with when senior managers hold a joint post with two organisations?
- the single table of remuneration differs between the FReM and the GAM – why is that?
- how should the clinical excellence award be disclosed?
- how should salary sacrifice schemes be disclosed?

Our members are concerned about the pension information they receive from the NHS Business Services Authority – they report difficulties when they query information and ask for amendments. It is difficult for NHS bodies to assess the reasonableness of the information provided in relation to pension numbers and members can cite examples of instances where the information they have been given has been subsequently corrected. In particular, members would like to know what assurance they have over these numbers? For instance, is there an ISA3402 style report giving assurance over third party generated information? Or is there some guidance that could be provided to help finance teams assess the reasonableness of the pension disclosures against the information that they hold.

While these issues may not all be able to be addressed in the GAM, it would be helpful for them to be considered by the DHSC working group on remuneration.

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

No

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

For 2019/20, there are two regulations which amend the Companies Act requirements in relation to directors' reports:

- the Companies (Miscellaneous Reporting) Regulations 2018 require companies to make additional disclosures in their directors' report about how they promise the success of the company for the benefit of its members, their governance arrangements and executive pay.
- the Companies (Directors' Report) and Limited liability Partnerships (Energy and Carbon Report) Regulations 2018 introduce a requirement to include statements in the directors' report about the entity's energy use and action taken to increase its energy efficiency. There are also requirements for large unlisted companies to make statements in the directors' report concerning greenhouse gas emissions, energy use and action to increase energy efficiency in the UK.

While neither of these regulations are directly applicable to NHS bodies, they amend to the regulations which form the basis for the contents of the directors' report in the HM Treasury FReM. It is not yet clear whether, and how, these changes will be adopted into the public sector/ NHS.

13. When EU adopted, do you consider any of the IFRS amendments effective for 2019-20 as requiring additional explanation in the GAM?

No

Contact

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