Consultation on an International Financial Reporting Standards based *NHS Foundation Trust Financial Reporting Manual* for 2009/10

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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.

In relation to charitable funds, our comments are also informed by the views of our Charitable Funds Special Interest Group which is charged with monitoring and commenting on developments in NHS charitable funds and also with producing guidance and support to practitioners in the field – including our well respected publication 'NHS Charitable Funds: a Practical Guide'.

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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.

1.

a) Do you accept that accounting for donations should follow Application Note G to FRS 5?

NO

b) If not, why not?

In our view accounting for donations in line with application note G would not be applicable – there are two views that support this position:

i) The treatment of donated assets is akin to the treatment of government grants. IAS 18 – Revenue states that 'revenue should be recognised when economic benefits will flow to the entity'. However, as an asset is depreciated over its useful economic life, economic benefits are realised over the life of the asset not just when the asset is initially donated. This is in line with the 'matching concept' principle – namely that income should be matched against the costs to which it relates.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance also recognises the matching principle. Para 12 states that 'Government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis'.

ii) If the presumption is that it is IAS 20 that is inconsistent with the 'fundamental principles' we would argue as follows. The principles certainly appear to advocate recognition, but they do not seem to specify over what period of time. It therefore follows that it may require that donations related to asset purchases should be treated as deferred income as the fundamental principles would still require that once the effect on assets and liabilities has been established, the concept of matching should be considered.

Charitable Funds Consolidation

In response to the wider issue of Consolidation of Charitable Fund as highlighted at section 5 of the consultation we do not agree with the principle.

Firstly, it would lead to a lack of clarity between the FT's own financial position and that of its associated charitable funds. Secondly, it would lead to distortions both within and between FT accounts.

On the first issue we are opposed as a matter of principle to the consolidation of charitable funds – in our view, FRS 2 and its focus on presenting a group of commercial subsidiaries as a single economic entity because there is common control cannot sensibly apply to funds that are legally separate from those of the FT and that exist for exclusively charitable purposes. Charity law requires trustees to act solely in the charity's interest and in line with its objects – if they do not do so they are breaching charity law. In our opinion this means that the FT cannot be said to have 'control' over the charitable funds and they should not therefore be consolidated.

On our second point, the differential treatment of cash and asset donations would inevitably lead to inconsistencies within and between FTs. Cash gifts would result in an unpredictable and uneven income stream whilst donated assets would involve a reserve and amortisation. As dividend calculations are based on total assets there is also the potential for FTs to pay dividends on assets that have not been contributed to by the Department of Health.

2.

a) **Do you agree that if an NHS FT does not report revenues for segments in its internal reporting, then it should report segments by reference to expenditure in its annual accounts?**

NO

b) **If not, why not?**

In our view, there is no need for such a requirement, as we believe healthcare is a single reporting segment. This view is based primarily on the view that for most FTs full discrete financial information would not generally be available and reported to the Chief Operating Decision Maker (CODM).

If this is the case our interpretation of IFRS 8, which is consistent with PWC's iGAAP, is that there would be no operating segments other than for healthcare. This would also seem the most sensible interpretation to apply to FTs, since even if income and expenditure analysis is available it is unlikely that total assets will be routinely analysed and reported to the CODM on a fully segmental basis.

There is also an argument that even if there were segments in the form of business units or directorates, the aggregate rules should apply. In reaching this conclusion we have taken into consideration the core principle of IFRS 8 – i.e. that an entity is required to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

The aggregate rules for combining segments are applicable:

1) *Aggregation is consistent with the core principle* – healthcare as a single segment meets this definition for FTs.

2) *The segments have similar economic characteristics* – the identifiable individual business units or directorates of an FT are all subject to the same economic characteristics affecting the NHS (for example, PbR and other policies).

3) *The segments for most FTs would be similar in the following respects:*
   - the nature of products and services
   - the type or class of customer for their products and services
   - the methods used to provide their services
   - the nature of the regulatory environment.

3.

a) **Do you agree that NHS FTs should not be permitted to capitalise borrowing costs for initial measurements of an asset's value prior to its first revaluation?**

NO

b) If not, why not?

As no sound arguments have been put forward for any change in approach, we believe that FTs should continue to have the option to capitalise or not capitalise. This proposal would restrict capitalisation that is allowed in iGAAP.

Thank you for responding to this consultation. Please save this document, and email it to 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, Thursday 2 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 ☐