

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

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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?**

This would be very distorting to the financial results of Foundation Trusts. Income, EBITDA and net surplus will all be affected and so a misleading Financial Risk Rating could result. It could also lead to "gaming" with Trusts artificially improving their Financial Risk Ratings by carefully influencing the timing of capital donations.

For example, Derby NHS Hospitals Foundation Trust is currently in the process of purchasing 2 linear accelerators and associated equipment for radiotherapy. The total amount spent from charitable funds will be £3.2 million. The assets will be written off over 10 years resulting in a depreciation charge of £320,000 per annum. In the first year if Application note G applied we would record a "windfall" of £2.9 million and in subsequent years a cost of £320,000 not offset by income.

An accounting Treatment similar to IAS 20 Accounting for Government Grants, where the value of the donated asset would be held in a donation reserve and amortised to the Income and Expenditure Account over the life of the asset, would seem far more appropriate. Such an

approach better reflects the value that the Trust receives over the life of the donated asset and irons out the distortions that would otherwise result from the receipt of high value donated assets.

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?

A Foundation Trust's internal reporting is only one factor to consider when looking at the segmental reporting issue. The decision is not based on income, expenditure, or assets alone and so selecting one of these as the determining factor is inconsistent with both the letter and the spirit of IFRS guidance.

If we are to apply IFRS we should have the freedom to interpret the rules as they were intended.

Importantly, IFRS allows aggregation of segments that have similar economic characteristics and types and class of customer. It also suggests a 10% de minimus threshold when considering whether segments are significant enough to disclose separately.

Internal and external reporting are not the same. We are concerned that there may be a temptation to confuse segmental reporting with service line reporting and perhaps use one to drive the other. We believe this is incorrect and unnecessary. Segmental reporting is a financial reporting issue and we can see no benefit in making the requirements any more onerous than necessary. Service line reporting, on the other hand, needs to be at a much more detailed level for it to be useful for internal decision making. Boards are sufficiently well motivated to develop service line reporting without the need for an additional external reporting requirement.

We are concerned that a requirement to report externally at a more detailed level than that required by IFRS could put Foundation Trusts at a commercial disadvantage.

In reality, most Foundation Trusts will only have one segment – that of healthcare – and it should not be necessary to break this down further.

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?

We believe that Foundation Trusts should have the option to capitalise borrowing costs for initial measurement in line with other organisations under IFRS. This would be crucial for Foundation Trusts which have to borrow finance, over a substantial period, for example a major building project. We do not see why an exception needs to be made for Foundation Trusts. Again, if we are to follow IFRS we should do so as closely as possible with the freedom to interpret the rules as they were intended.

4 Other comments

Subsidiary Undertakings – IAS27

We have serious concerns regarding the potential interpretation of IAS27 in respect of NHS charitable funds.

The consolidation of NHS charitable funds into the accounts of Foundation Trusts (and NHS Trusts) would create a strong public perception that charitable funds and public funds are indistinguishable, interchangeable and that they are managed in the same way by the same people. This is clearly not the case and any such public perception will seriously jeopardise future charitable donations and may even lead to legal challenges from previous donors.

We very much need to keep charitable funds and public funds separate and give the public a clear perception that this is the case.

The objects of charitable funds have to be entirely charitable, whereas the objects of a Foundation Trust (or NHS Trust) are not. Even where directors of the Foundation Trust are also trustees of charitable funds, they have to behave very differently in those two roles. Under charity law trustees have a duty to act in the interests of the charity and therefore to make decisions in the charity's interests alone. If a director were to act even partly in the best interests of the Foundation Trust when dealing with the affairs of the charity, then they could be committing a breach of trust. Charity law therefore acts as an important counterbalance when considering issues of control under IFRS and must be taken into account.

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