



## SCOTTISH EXECUTIVE

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Your ref:  
Our ref:

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*Sent by E-Mail*

Dear Colleague

### **Technical Accounting Group (TAG) Minutes for 26 March 2002**

Please find attached a copy of the above. If you have any queries regarding the minutes please do not hesitate to contact me.

Yours sincerely

Julie McKinney  
Financial Accountant

## **National Health Service In Scotland – Technical Accounting Group**

### **Minutes of the fortieth meeting of the Technical Accounting Group held on Tuesday, 26<sup>th</sup> March 2002 at New Register House, Edinburgh**

#### **Present:**

Robert Stewart, Forth Valley Primary Care NHS Trust  
Janice MacPhail, SEHD  
Julie McKinney, SEHD  
Jim Hamilton, Greater Glasgow Health Board  
John Henderson, Shetland Health Board  
Alan Sharp, Grampian University Hospitals NHS Trust  
David Watt, KPMG Glasgow  
Alistair Swarbrick, Audit Scotland  
Jean McBride, Audit Scotland

#### **Apologies**

Alan Grant, Tayside Health Board  
Jim Orr, Greater Glasgow Primary Care NHS Trust  
Lindsay Tolland, Ayrshire & Arran Acute Hospitals NHS Trust

#### **40.1 Robert Stewart welcomed John Henderson to the group**

John Henderson, Finance Manager of Shetland Health Board, was invited onto the group last year in order to represent the Island Health Boards on TAG.

#### **40.2 Minutes of the previous two meetings of 24 July 2001 and 18 December 2001 were approved**

#### **40.3 Matters arising from the minutes**

##### **(a) 2001-02 Annual Accounts Manuals**

Robert Stewart reminded the group that the 2001-02 Annual Accounts Manuals had been issued to the service in December 2001. Julie McKinney confirmed that there had been no fundamental queries on the manuals which would need addressing by the group. The summarisation discs were issued in February and a number of minor adjustments were made to the manual at this time. A few queries had been raised by the service, particularly in relation to the Board Members Remuneration Note and it was agreed that this would be discussed under Item 8 on the agenda.

**No further action required**

##### **(b) Progress of TAG Annual Accounts Sub-Group**

Janice MacPhail outlined the progress of the above group who are currently preparing the 2002-03 Annual Accounts Manuals which will comply with Treasury's Resource Accounting Manual (RAM).

The main change for the 2002-03 Manuals will be the introduction of an 'Operating Cost Statement' to replace the existing 'Income and Expenditure Account'. The Operating Cost Statement (OCS) will be identical for both Trusts and Boards in order to facilitate the production of consolidated accounts for a Unified Health Board Area. The

introduction of the OCS will result in some changes to the Notes to the accounts but these will be of a presentational nature.

The format of the OCS will differ to that demonstrated in the RAM, which splits costs into Programme and Administration Costs. As all NHS costs are defined as Programme Costs, there is no requirement to show this split. Instead, the OCS will be designed to better meet the needs of the NHSScotland and is expected to split costs into Clinical and Non-Clinical Costs. Costs relating to fixed assets, e.g. Profit/(Loss) on Disposal of Fixed Assets, Effect of Revaluation of Properties, and Capital Write Offs, will also be shown separately on the face of the OCS.

The other main change relates to the introduction of a General Fund on the Balance Sheet. This will replace the Capital Reserve and Balance due to/(from) SEHD for Health Boards, and the PDC and I&E Account for Trusts. A comparative balance sheet for 2000-01 will be required, to demonstrate how the General Fund has been established.

Audit Scotland will review the audit opinion to reflect the introduction of RAM and an OCS.

Robert Stewart raised the matter of disclosing staff numbers in WTE by objectives as prescribed in the RAM. At present, boards and trusts disclose staff numbers by function, e.g. medical and dental or nursing and midwifery. The group discussed whether there could be a move towards changing this such that staff numbers are disclosed by objective. Janice explained that the Health Department currently has 3 main objectives as disclosed in the RAM and that these may need to be extended if they were to provide meaningful information in a trust/board context. The group agreed to carry this matter forward as a work in progress.

Finally, the group agreed that the Draft Annual Accounts Manuals for 2002-03 should be issued by mid-April in order to alert the service to the changes as soon as possible and allow them to make any necessary changes to their general ledger systems. Comments would be sought by the end of the summer and any subsequent updates would be issued during the year. As the 2002-03 Resource Accounting Manual is unlikely to be issued by Treasury before January 2003, there will be a final update after this – it is not expected, however, that any major changes will be introduced at this time. The Draft Manuals will be issued to all TAG and sub-group members for comment before issue.

**Action: Julie McKinney**

#### **40.4 Approval of Capital Accounting Manual**

Julie McKinney explained that the draft Capital Accounting Manual was issued to the service on 18 December 2001 with responses/comments due by 26 January 2002. To date, Julie had received only 3 written responses and a handful of telephone calls regarding the manual. All respondents were content with the Manual.

The covering letter which accompanied the Manual asked the service to confirm whether they were in the practice of transferring the “realised element” of the revaluation reserve to the I&E Reserve. From the limited response to the letter it is thought most likely that this entry is not being made by most trusts/boards as it is not

material. The group agreed that the manual should continue to advise that this transfer should be made in accordance with UK GAAP.

Julie raised the matter of negative indexation on equipment and how this should be treated in the accounts. This issue is not covered specifically in the manual but it is assumed that negative indexation on equipment would normally be charged to depreciation rather than accounted for as an impairment.

The group agreed to issue the Manual to the service. No changes would be made from the draft version.

**Action: Julie McKinney**

#### **40.5 FRS 17 Retirement Benefits**

Julie explained to the group that the Annual Accounts Sub Group had agreed to issue the 2001-02 Manuals with a Pensions Note which would need to be reviewed. The difficulty related to the interpretation of FRS 17. Given that the NHS Superannuation Scheme is a notional defined benefit scheme, but should account for pensions as a defined contribution scheme (given that the scheme is a multi-employer scheme where the share of assets and liabilities applicable to each employer cannot be identified), it was unclear as to whether the disclosure requirements of a defined benefit or contribution scheme should apply.

The group discussed this issue and agreed that the disclosure requirements of a defined benefit scheme should be applied with an additional disclosure explaining that pension costs would be accounted for on a defined contribution basis. The result of this is that additional information may need to be disclosed on the main results and assumptions of the most recent valuation by Scottish Public Pensions Agency (SPPA). It was agreed that Julie McKinney would update Note 15 and Note 25 of the Annual Accounts for Boards and Trusts respectively, and issue this to the service as soon as possible. No additional work will be required by the service – they will simply have to add the new narrative to their published accounts.

**Action: Julie McKinney**

#### **40.6 Accounting for Provisions – Unwinding of Discounts**

The TAG Annual Accounts Sub Group had referred this item to TAG. The item had been raised at the sub-group when examining a paper outlining the differences between NHS accounting and the Resource Accounting Manual. The RAM provides guidance on how the unwinding of discounts should be treated in the OCS while it was noted that the discounting of provisions (or indeed unwinding of discounts) is not mentioned in the Scottish Accounts Manuals. The service, however, are fully expected to comply with FRS12 as outlined in the manuals and therefore apply discounting of provisions where applicable.

Most of the group did not believe that discounting of provisions was a wide spread practice in the NHS but Jean McBride confirmed that she was aware of a few examples of trusts who discounted their Industrial Injury Benefit. She did not believe that they were unwinding the discount.

The group agreed that Janice MacPhail should write out to the service advising them that where they discount provisions, they must unwind the discount in accordance with FRS 12.

**Action: Janice MacPhail**

#### **40.7 Lottery Funding**

The group had received a query from Highland Health Board requesting clarification on the accounting treatment of a number of NOF grants. Audit Scotland and the SEHD were of a different opinion on the accounting treatment for NOF grants in respect of revenue expenditure. The group discussed the matter at some length and agreed that Janice MacPhail would prepare a paper outlining the accounting treatment agreed by the group. Janice agreed to circulate the paper to Jean McBride and Jim Hamilton for comments. In summary, the paper would state the following:

- (a) Donated assets should be created from NOF Grants in respect of capital expenditure.
- (b) NOF Grants to support revenue expenditure should go through the Income and Expenditure Account (or Operating Cost Statement from 2002-03).
- (c) Where a health board acts as an “umbrella” organisation or “post-box” for a NOF scheme where there are several partners, the I&E Account of the Health Board should match the flow of funds through the system. In effect, this means that the health board should show reflect the all income and expenditure through the I & E Account.

**Action: Janice MacPhail  
Update 2001-02 Manual**

#### **40.8 Board Members Remuneration Note in respect of Employee Directors**

Janice MacPhail had received a letter asking for clarification on the disclosure requirement in respect of the Employee Director. All NHS Boards will have an Employee Director (ED) who may be a full time employee of the Trust or of the Board. They will get an additional payment in respect of their Board duties. What should they Board disclose as their remuneration figure in the notes to the annual accounts?

The group discussed this matter at some length and agreed on the following:

- (a) If the ED is an employee of the Board, the remuneration figure disclosed should be their basis salary plus the additional payment for their board duties. A footnote should be made stating the amount of the remuneration which relates to non-board duties, i.e the basic salary of the ED.
- (b) If the ED is an employee of the Trust, the remuneration figure disclosed should be the additional payment in respect of board duties only. No footnote would be required.

Janice MacPhail agreed to write out to the service advising them of the above.

**Action: Janice MacPhail**

A number of members of the group raised the issue of defining senior employees. For trusts, it was agreed that ALL members of the Trust Management Team should be included together with any other senior members of staff who make executive or strategic decisions. The ultimate responsibility for defining senior staff will lie with the Chief Executive of the Trust.

Finally, Alan Sharp asked the group to clarify a requirement of the manual, which asks for a report by the Remuneration Committee to be included in the Annual Report and the Annual Accounts, as recommended by Greenbury. Julie McKinney agreed to ask the Accountancy Service Unit of The Scottish Executive to clarify this issue as this requirement had been lifted from their Application Note (2001)6.

**Action: Julie McKinney**

#### **40.7 A.O.C.B.**

##### **PFI Accounting Treatment**

Robert Stewart raised this issue as a result of correspondence he had received from Ayrshire and Arran Acute Trust. The group agreed that the Capital Accounting Manual provided adequate advice on accounting for PFI projects. It was accepted, however, that this can prove a difficult area to interpret given the unique nature of each individual project and the lack of examples available for examination. Janice MacPhail agreed that the issue faced by Ayrshire and Arran Trust over the funding gap between the finance charge and rental payments was a funding issue which would need to be addressed by the SEHD. Janice agreed to take this matter forward at the Department.

**Action: Janice MacPhail**

##### **Sale of Land**

Robert Stewart raised this issue. A trust may hold a piece of land (at a relatively low market value) and enter into discussions with a property developer to secure the best receipt for the land for the public purse. This may involve a contract spanning a number of years. Once planning permission has been granted on the land, the value of the land at open market value would increase resulting in increased capital charges for the trust over the length of the contract.

The group discussed this scenario at length but could not see how the trust could avoid paying capital charges on the increased value of the land. The group suggested that any trust entering into such a contract should discuss the situation with their developer to explore whether the terms of the agreement could be worded in such a way as to alienate the trust from the increase in value of the land arising from approval of future planning permission. A further avenue to explore would be to discuss the situation with the appointed valuers to determine the timing of the recognition of the increase in value. Robert Stewart agreed to explore this issue further with other NHS Trusts which had recently sold land under such circumstances.

**Action: Robert Stewart**

#### **40.8 Date of Next Meeting**

The next meeting was set for 2 p.m. on Thursday, 9<sup>th</sup> May 2002. Robert Stewart agreed to book accommodation in Stirling.