



Response to the FRC's consultation on FRED 82: draft amendments to FRS 102 *the Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs*

Introduction

The HFMA's NHS Charity Finance Group (the Group) is responding to this consultation because the amendment to FRS 102 will feed into the *Charities statement of recommended practice* (SORP). The focus of this response is therefore on the areas of the standard that relate to NHS charities as public benefit entities. NHS charities are, in the main, grant making charities that are reliant on donations and fundraising from the public and corporate sector. The focus of this response is therefore on the areas that are likely to impact these charities.

Incoming resources from non-exchange transactions

The Group welcomes the inclusion of specific guidance in the standard for non-exchange transactions.

The amendments proposed to paragraphs PBE34.65 to PBE34.74 are reasonable and provide welcome additional guidance in relation to donations of goods and services and legacy income.

During the early stages of the Covid-19 pandemic in March 2020, NHS charities received donations of goods from Easter eggs to microwaves and equipment for rest rooms for NHS staff. The proposed amendments make it clear how these donations should be recognised. In respect of low value gifts intended to be a token of appreciation, such as flowers or chocolates, the option to treat these on the basis of value to the entity would be appropriate in accordance with the final sentence in paragraph PBE 34.73A - 'If an entity would not have purchased the low value gifted items at all had these not been donated, the value to the entity is expected to be nil'.

We welcome the consolidation of the guidance previously included in an appendix as this makes the document easier to navigate.

It is not clear why the definition of a non-exchange transaction has been deleted from paragraph PBE34.65 – it does not seem to be included in the glossary either. While the Charities SORP will provide definitions for the charity sector, its exclusion from FRS 102 does seem to be a significant oversight. The current definition found in the glossary of FRS102 should be retained.



Revenue recognition

Most NHS charities do not generate revenue from contracts for goods or services so the amendments to FRS 102 in relation to revenue recognition are unlikely to affect them.

Having said that, experience from the NHS when adopting IFRS 15 is that implementing the five step process for revenue recognition is time consuming and it is important to embed the process into working practices. This is more difficult when revenue from contracts is unusual. Any concessions that can be made to simplify the process would be welcomed.

Leases

This is another area that will affect very few NHS charities. Given the close working relationships between NHS bodies and NHS charities there will, no doubt, be some lease arrangements between them. The alignment of accounting treatment will be welcome as NHS bodies adopted IFRS 16 from 1 April 2022.

The key difficulties that NHS bodies have identified when adopting IFRS 16 are identifying lease arrangements and determining the terms of those arrangements where there is not clear documentation. We expect that this will be the same for NHS charities as arrangements with NHS bodies may not be appropriately documented.

We welcome the proposed simplifications in relation to determining the interest rate implicit in the lease. Where the interest rate implicit in the lease is unavailable, NHS bodies are directed to use a rate provided by HM Treasury.

Although likely to be rare, an NHS charity might have a below market lease from another charity, or an NHS body, where the lessor is making the asset available for research or clinical use or another charitable purpose. The proposed treatment in paragraphs 20.36, 24.5F and PBE34.70B seems complex, implying that the NHS charity calculates what the equivalent commercial lease would have been, then computes the difference between that and the actual arrangement and accounts for this difference as notional grant income. We note that this is the way that NHS bodies account for peppercorn leases. However, in the charity sector this approach treats what is a single decision, the granting of a public benefit entity lease to the NHS charity, as two separate decisions, a market lease and a grant subsidy. We recommend that the FRC reconsiders its approach in dialogue with the public benefit entity sector.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 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 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 which was launched in 2017 and has already established strong learner and alumni networks.

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