PCT Estate

Guidance on accounting for estate transfers

March 2012

Background

Transforming Community Services policy, as issued in January 2009, set out that whilst services should be separated from PCTs, assets should remain with the commissioner PCT. Provider organisations have therefore had access to PCT estate under various occupancy arrangements.

Subject to the passage of the Health and Social Care Bill through Parliament, PCTs will be abolished in April 2013, requiring the development of new policies in respect of the PCT estate.

The Department announced on 04 August 2011, that aspirant community foundation trusts, other National Health Service (NHS) Trusts, and foundation trusts are to be given the opportunity to acquire part(s) of the PCT estate deemed 'service critical clinical infrastructure'. The relevant guidance, 'PCT Estate: future ownership and management of estate in the ownership of Primary Care Trusts in England', is available on the DH website[1].

There are no plans to transfer assets to social enterprises or other non-NHS providers. However access to assets required for the delivery of services commissioned from them will still be possible through leases, tenancy agreements or licenses (as appropriate), co-terminus with their service contracts. NHS providers will also be able to continue to occupy any property which is required to support service delivery, but which is not transferred to them, under this type of arrangement, at a fair cost.

Purpose

This guidance does not cover existing arrangements, but provides guidance on accounting implications of the transfers of PCT estate taking place upon PCT abolition.

Depending on the existing occupancy arrangements between NHS providers and PCTs, each organisation should account in 2011/12 for their occupancy as appropriate (e.g. operating lease, finance lease) following the guidance set out in the NHS Manual for Accounts.

Timing

We currently anticipate that all documentation of transfers (property and associated staff) will be in place from 31/12/2012 with legal transfers being effective from 31/03/2013.

1 http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_129008

Initial transfers of estate to NHS providers

Transfers of functions from one part of the public sector to another are accounted for using merger accounting (which is set out in the HM Treasury Financial Reporting Manual (FReM). This means that both parties to the transfer account for the function as if the receiving party has always undertaken it, and the consolidated position remains constant. This principle will also apply to assets that transfer along with an associated function. Essentially assets and liabilities simply move from one organisation to the other with no change in value (i.e. there is no need to revalue immediately prior to transfer).

HM Treasury has specified that the transactions associated with the NHS reforms should be recorded following the principles of merger accounting.

The movement of PCT "owned" assets to support the transferred functions will, therefore, need to follow the same principle in line with the FReM.

Public Dividend Capital (PDC) will be deemed to the receiving organisation (again this reflects how the asset would have been reflected had it always been in the ownership of the receiving body) and the asset will be shown at existing Net Book Value (NBV). The sender organisation will show a reserve movement as its balancing entry. DH will provide confirmation of deemed PDC on legal transfer.

Example: PCT A transfers an asset to NHS Trust B

	Dr	**Cr**
PCT A Non current assets held for sale		5
PCT A General reserve	5	
NHS Trust B Non current assets	5	
NHS Trust B PDC (deemed)		5

Where a revaluation reserve exists in relation to an asset, this will be transferred (to reflect the position had the recipient always owned the asset), reducing the amount of PDC required.

Any accounting entries in the year of transfer for fixed asset additions, depreciation and revaluation will also need to be reversed in the disposing body's accounts and entered into the receiving body's accounts.

Where appropriate provider organisations will need to disclose the restrictions set out in the transfer order in relation to Secretary of State's (SofS) right to reacquire the asset in specific circumstances.

Q1 forms for 2012/13 and supporting guidance will be developed to capture the information necessary to effect these reversals and ensure that the corresponding costs are reflected in the accounts of the receiving bodies.

If appropriate, further guidance will be issued on the need to restate prior year accounts, once the position has been clarified for 2012/13 by HMT.

Subsequent transfers

In specific circumstances (as set out in the guidance of 4 August 2011) the Trust will be obliged to offer properties back to SofS. If SofS chooses to exercise his option to reacquire this will need to be accounted for in line with the FReM using the "normal" acquisition accounting rules. As this transaction is a transfer of assets only and not a transfer of functions (as the services will be vested with another body), merger accounting rules do not apply.

SofS will "buy" the asset back at NBV. A circular flow of funds will be used as the cash paid for the asset will then be repaid back to SofS as a repayment of PDC. Use of NBV at the point of transfer as the value to be transferred will mean that any increase in the value of an asset due to investment by the Provider Trust will be taken into account. The provider Trust should be in a no better, no worse position following the exercise of the option to acquire by SofS.

Example: NHS Trust B transfers an asset back to SofS following exercise of option to reacquire.

	Dr	**Cr**
NHS Trust B Non current assets		5
NHS Trust B Cash	5	
NHS Trust B PDC (originally deemed)	5	
NHS Trust B Cash		5
SofS Non current assets	5	
SofS Cash		5
SofS Cash	5	
SofS Investment		5

If SofS chooses not to exercise this option, the Trust will be free to dispose of the asset in the normal way and overage will be due to SofS based on 50% of any increase in value of the asset since initial transfer, or where the asset value has been increased due to investment the value post enhancement.

Example: NHS Trust B sells an asset on the open market for £5.5m, this being £0.5m more than the NBV immediately prior to revaluation prior to disposal, this having been the same as the initial transfer value of £5.0m. The £0.5m increase in value due to the revaluation to Open Market Value had been credited to the revaluation reserve in the normal way

	Dr	**Cr**
NHS Trust B Cash (sales proceeds)	5.5	
NHS Trust B Non current assets		5.5
NHS Trust B revaluation reserve	0.5	
NHS Trust B I&E reserve		0.5
SofS Cash (overage 50%)	0.25	
NHS Trust B Cash (overage 50%)		0.25
NHS Trust B I&E expense	0.25	
SofS I&E gain		0.25

Where it has been agreed that as a condition of the Secretary of State not re-acquiring a surplus property through the buy-back arrangements that there should be some repayment of PDC, then the accounting entries for that would be as follows:

	Dr	**Cr**
NHS Trust B PDC	5	
NHS Trust B Cash		5
SofS Cash	5	
SofS Investment		5

Revenue costs

Where previously estates and associated services were provided by PCTs it is intended that these services will transfer to the receiving organisation along with the asset. In order to ensure continued financially viable provision of estates and associated services, it is vital that where these services were not paid for by service charges from tenants PCT estates running costs budgets and allocations associated with transferring properties are transferred to receiving organisations.

As part of the due diligence process for the asset transfers, PCTs and receiving organisations will be expected to identify spending associated with individual elements of the estate portfolio. The precise mechanism for ensuring that these resources accompany the asset will be determined as the operating models for the NHS Commissioning Board and Clinical Commissioning Groups are agreed.

Should a property revert back to the SofS, responsibility for estates services and associated revenue costs will also revert.