Agreement of Balances Guidance 2018-19

Prepared by the Department of Health and Social Care, NHS England and NHS Improvement

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Executive Summary

Introduction to the Guide

This guide is designed to provide practical guidance for the completion of the Department of Health & Social Care (DHSC) Accounting Group Agreement of Balances exercises.

While the Department of Health & Social Care Group Accounting Manual (‘the Manual’) outlines the principles of the exercise including the associated accounting principles, this guidance includes more details of how the exercise should be completed in practice. The guidance should therefore be read in conjunction with the guidance within the Manual.

The following definitions will apply to Agreement of Balances (AoB), and will be used throughout the guidance:

- **Receivable organisation** - this is the organisation sending the invoice/is carrying the trade receivable/is receiving the income (i.e. the supplier or provider) unless using net accounting (see section 6 and/ or Appendix 4)

- **Payable organisation** – this is the organisation receiving the invoice/carrying the trade payable/recording expenditure (i.e. the purchaser or commissioner) unless using net accounting (see section 6 and/ or Appendix 4)

The definitions apply when referring to both Payables/Receivables and Income/Expenditure agreements.

For the purpose of this guidance document, the “national bodies” means the Department of Health & Social Care, NHS Improvement and NHS England see section 7 of this guidance for the processes to follow in agreeing balances with NHS England and its entities.
1. **What is AoB?**

1.1 The Department of Health & Social Care (DHSC) is required to consolidate the accounts of all organisations falling within the accounting boundary, as expanded by the Constitutional Reform and Governance Act 2010 (HM Treasury’s alignment legislation). Under International Financial Reporting Standard 10 (IFRS10), paragraph B86, consolidated statements should “…eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group”.

1.2 The AoB process seeks to identify all income and expenditure, transactions and payable and receivable balances that arise from the contracts for the provision of goods and services between group bodies (i.e. intragroup).

1.3 Additionally, it forms an essential part of an organisation’s financial management ensuring that an organisation’s payable and receivable balances and understanding of future cash flows are correct.

1.4 Agreeing, or not agreeing, a transaction or balance as part of the AoB process does not constitute a legal obligation to pay or not pay. Additionally, the lack of a balance on a received statement does not remove a receivable entity’s right to make further updates once the agreement exercise has concluded. It is, however, expected that such changes would be discussed between counterparties as part of normal business activities.

1.5 The AoB process caters for the accurate elimination of intragroup transactions within the Consolidated Departmental Account and for the preparation of the Department's Whole of Government Consolidation Return to HM Treasury. NHS Improvement and NHS England also eliminate transactions and balances between their group bodies in preparing their sector specific consolidated accounts.

1.6 The AoB exercise is completed three times a year at Q2, Q3 and Q4. The Q2 agreement exercise is voluntary (although the issue of statements remains a requirement), for receivables and payables only and does not include agreement with local authorities and other government departments. Although, agreeing balances at Q2 is not mandatory and the submission of agreement of balances data is not required, as best practice we would encourage organisations to participate in discussions, where there is a need to do so locally to resolve significant issues. At Q3 and Q4 submission of all agreement of balances data and balances and transactions with local authorities and other government departments is required.
1.7 The exercise completed at Q3 contributes to the Department of Health & Social Care Consolidated Interim Accounts. The exercise looks to agree both outstanding payables and receivables and income and expenditure for the year to date, as well as, providing figures for the interim accounts. Any issues arising since Q2 can be addressed, for resolution before year-end. It also provides an indication of any issues which DHSC and consolidation entities may need to resolve in preparation for year-end.

1.8 The exercise completed at Q4 contributes directly to the year-end production of the provider sector, NHS England and Department of Health & Social Care Consolidated Final Accounts. This exercise includes an Income and Expenditure agreement exercise. Accruals statements should be sent and discussions should take place and wherever possible agreed, although formal agreement of accruals is not required.

1.9 At Q4, DHSC Group bodies are also required to agree balances and transactions with bodies within the WGA boundary where the balance or transaction exceeds the WGA agreement limit. Local authorities, NHS Trusts and Foundation Trusts and Public Corporations are exempt from WGA agreements. Further information on agreeing balances with WGA bodies is available from Gov.uk

1.10 Summary of thresholds for issuing and agreeing to statements, is as follows:

<table>
<thead>
<tr>
<th>Area</th>
<th>Policy - Issuing Statements</th>
<th>Policy – Agreeing</th>
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<tbody>
<tr>
<td>Q2 R&amp;P</td>
<td>£2,500*</td>
<td>£100,000**</td>
</tr>
<tr>
<td>Q3 R&amp;P</td>
<td>£2,500*</td>
<td>£100,000</td>
</tr>
<tr>
<td>Q3 I&amp;E</td>
<td>£10,000*</td>
<td>£100,000</td>
</tr>
<tr>
<td>Q3 accruals</td>
<td>No statements*</td>
<td>No statements</td>
</tr>
<tr>
<td>Q4 R&amp;P</td>
<td>£2,500 *</td>
<td>£100,000</td>
</tr>
<tr>
<td>Q4 I&amp;E</td>
<td>£2m.*</td>
<td>£2m</td>
</tr>
<tr>
<td>Q4 accruals</td>
<td>No de minimis*</td>
<td>Statement issued but agreement not mandatory</td>
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* Note that organisations are still able to send statements at a lower level than these if they have automated processes for issuing statements and wish to continue doing so.

** Suggested threshold for voluntary agreements
2. AoB Best Practice

From discussions with the NHS, the following examples of best practice have been identified:

2.1 **As a receivable body, provide as much information as possible** – by issuing the statements with adequate information, as set out in section 3, the payable body will be better able to identify amounts that may be outstanding, and this will assist in the resolution of problems that may arise when agreeing balances.

2.2 **Send the statements to the correct contact** – issuing the statements to the contact listed will ensure that the correct person in the agreeing body receives the statement. Organisations should also quote their organisation code in the subject line of the email. Please note the process for sending statements to NHS England as per section 7 of this guidance. Statements must be issued on time and in accordance with the timetable available on the Gov.uk website.

2.3 **Wherever possible conduct correspondence electronically** – issuing and responding to statements by email allows more time for agreement. Statements should also be issued in excel format.

2.4 **As a payable body, respond to the statement as soon as possible** – statements should be returned as soon as possible to the receivable organisation (quoting your NHS organisation code in the subject line of the email), especially where balances are not fully agreed. This will allow more time for resolution of problems.

2.5 In addition, where the payables organisation is including a balance which the receivables organisation may not be expecting (e.g. accruals during Q2/Q3, converting a negative payable to a receivable etc.), it is good practice to inform the receivable body as this will enable them to either match your treatment or explain any remaining variance.

2.6 **Complete the exercise within the agreed deadlines** – deadlines are agreed in advance of each exercise by DHSC and its National Bodies to give participants adequate time to complete their parts.

2.7 **Do not request statements or a response until the deadline has passed** – To allow organisations time to complete their exercise within the deadlines it is requested that they are not contacted for responses before the deadline has passed. Priority must be given to those balances within the remit of the exercise.
2.8 **Complete the data collection forms correctly** – to enable DHSC and its National Bodies to see the overall balance for elimination, and to be able to correctly determine where variances exist, it is important that balances are recorded in the correct part of the collection templates. This is especially important at Q4 when the AoB forms must agree to the accounts information submitted at the same time. Further details can be found in [section 5](#).

Balances should not be adjusted erroneously; especially when being asked to resubmit balances when material variances occur. In no circumstances should balances be adjusted simply to bring a variance under the tolerance set – see [section 8](#) & [section 9](#). Such manipulations could increase the total mismatch across the sector and increase the likelihood of there being additional AoB processes and resubmissions.

2.9 **Provide reasons for adjustments where requested** – where collection forms provide free text cells to record why any material adjustment balance has been included, please provide those explanations. It will save time at year-end if this could be completed upon the first submission of balances. The free text explanations can enable the Department to make central adjustments and or justify the impact of the mismatch to the Department’s auditors, reducing the need for further resubmissions.

**Further Reading - HfMA Practical Guidance**

2.10 In 2014, HfMA published a detailed practical guide to agreement of balances in the NHS. Organisations may wish to refer to this as an additional guide for establishing best practice. The guide is available from the HfMA website ([http://www.hfma.org.uk/](http://www.hfma.org.uk/)).

2.11 However, for clarity and in case of query, the guidance in this document (issued by DHSC and its national bodies) takes precedence.
3. Creating and Sending Statements

Creating the statement

3.1 The issued statement should contain sufficient information to allow the payables organisation to identify invoices that have been issued (I&E) or are outstanding (Rec & Pay) by the receivable organisation up to and including the final invoicing date. The **minimum** requirement for a statement is:

- The date the invoice was issued
- The invoice number
- The total amount of the invoice
- The amount of the invoice which is unpaid (Rec & Pay)
- The name of the receivable body the agreement is with
- The name of the payable body the agreement is with
- I&E Only – whether the balance is considered Admin or Prog (see section 6)
- A contact phone number for queries and disputes
- Purchase order numbers relating to the invoices can be used if no invoice number is available or additional detail is required when investigating.

3.2 Additionally, it is helpful if the statements include a description as to what the charge is for, especially when the charge is included on the accruals statement at Q4, the name of the contact within the agreeing organisation, who had commissioned the service being provided and whether the invoice is being treated as a recharge.

3.3 Where invoices are raised relating solely to future periods and are included on receivables statements, they should be clearly marked as relating to a future period.

Good Practice

3.4 As most payables organisations keep a log of the balances they have been sent to agree in preparation for balance collection, statements should be issued in excel
format by email, quoting your NHS organisation code in the subject line of the email.

3.5 Scanned images should be avoided in all cases as they are difficult to manipulate and transfer into Excel. The issue of statements in PDF format should be avoided where possible as it is time consuming to extract the information in the PDF file to use within spreadsheets.

**When a statement should be sent**

3.6 As there is a requirement to **record all balances** with a counterparty, regardless of whether the balance is below the de minimis levels for agreement (see section 1), statements should be issued in the following circumstances:

- Income statements should be issued as follows:
  
a) at Q3, where the year to date total gross balance is greater than £10k, with a de minimis agreement limit of £100k.
  
b) At Q4, where the de minimis level for sending (and agreeing) statements is greater than £2m.

- Receivables statements should be issued in all circumstances where the outstanding balance is £2.5k or above. Balances below this level may be issued if the receivable organisation chooses to do so.

- Nil balances should not be issued in any circumstances.

Note – if the payables organisation thinks they should have a balance with the receivable organisation, it is their responsibility to discuss the issue with the receivables organisation after the deadline for statement issue has passed.

3.7 Statements containing balances for multiple payables entities should not be issued in any circumstances. A separate statement should be completed for each payables body. Refer to NHS England Guidance at section 7.

3.8 One statement should be sent per organisation, to ensure the correct balance is recorded on collection. Therefore, where the receivable organisation has multiple customer accounts for a single entity, or they are hosting services (as defined in section 6), a statement of all balances should be issued, except for NHS England (see section 7 for more information).

3.9 Where an NHS Trust becomes an NHS Foundation Trust part way through the year, it is necessary to send statements to the appropriate body. For example, if a
Trust becomes an FT on 1 March, at Q4 receivable statements should be sent to the NHS Foundation Trust only, but where income statements are sent, these should be sent to the organisation with which the transaction took place (see 7.29-7.32 for further information).

Accruals Statements

3.10 At the year-end, an additional accruals statement should be dispatched, at the same time as the statement of I&E, to provide data in a more cohesive way, improve the efficiency of the AoB exercise and to capture the accruals that organisations will have made during their year-end processes. It is vital that there is sufficient information on the statements to allow approval of the balances, particularly if invoices are raised later.

3.11 Accruals statements should include the same level of information as the usual statements. Accruals statements should include the following:

- April dated invoices that relate to goods and services delivered in the previous financial year.
- Any further payments received since the cut-off point and the end of the accounting period provided in the AoB timetable.
- Accruals for goods or services provided during the year for which an invoice has not been issued.
- Any other receivable or payable balances (including prepayments and deferred income) for trading balances in the current financial year that you would expect to include as part of your final balance. This should include non-invoiced income including grants.

3.12 Where material balances need to be estimated, the receivable organisation should ensure that the statements include as much detail as possible on the estimation technique/methodology to allow the agreeing body to recognise and include a matching accrual in their own accounts.

3.13 It is important that all accruals are raised, and statements issued in order that both organisations reflect the correct expenditure and income in the appropriate year to avoid timing differences and allow the transactions to be eliminated within the group account.
Issuing the Statements

3.14 Statements should be issued electronically by email. Statements relating to payables and receivables for organisations within the NHS England group will be issued by NHS Shared Business Services. Statements relating to income and expenditure are produced locally. Please see section 7 of this guidance in respect of statements for NHS England group bodies. Statements should be issued in accordance with the timetable available on Gov.uk.

3.15 AoB Contact Lists are updated prior to each agreement exercise and are circulated by DHSC directly to ALBs and via NHSE and NHSI for their group bodies. Receivable organisations should ensure they send their statements to the email addresses on the latest AoB contact list. Organisations should, use generic email addresses primarily, as these are less likely to change. However, to apply some flexibility to the process, specifically named email addresses can be used in a secondary aspect, especially where time to resolve an issue is at a premium, to meet a deadline.

3.16 It is also therefore extremely important that both payable and receivable organisations check the contact list thoroughly and update their details whenever the person(s), completing the agreements exercise, changes. Failure to do this will result in potential mismatches being left unresolved. AoB Contact list changes should be notified, just prior to each AoB exercise, to the sectors’ respective national body rather than directly to DHSC. Any revisions to future contact lists will be highlighted in yellow. All organisations need to ensure they have and apply the latest version prior to each exercise.

3.17 The contact lists may be password protected, in order to try and reduce the number of unsolicited emails organisations have been receiving. The password will be sent to organisations at the start of the exercise by your National Body.
4. Agreeing to the Balances Received

Checking the Statements

4.1 On receipt of the statement from the receivable organisation, the payables organisation should check the list of balances against their ledger to determine whether they agree to the amounts listed. It should be noted that this agreement forms an agreement that the balance is correct and is outstanding for payment. It is not an agreement that the balance will be paid.

4.2 If the invoice is not on the payable organisation's sub ledger, or full approval has not yet been given, then the payable organisation should carry out further investigation into whether the balance can be agreed in principle. This may be through further communication with invoice approvers, or by contacting the receivables organisation for further details.

4.3 In the case of Income and Expenditure balances, the payables organisation should check their expenditure reports to make sure that they have the listed transactions recorded in the current financial year. If it is recorded within the general ledger for the same year as the AoB exercise then this would be a transaction that can be agreed.

4.4 In the event that the transaction does not appear, the payables organisation will need to investigate the circumstance. It may be that the transaction needs to be accrued for, or that the transaction is shown as being for a prior or future financial year, or additional information is required regarding the transaction to be able to locate the amounts.

4.5 It is good practice for the payables organisation to prepare reports of outstanding payables balances/expenditure for the year to date in advance of receipt of the statement. This will allow the payables organisation to know in advance who they are expecting to receive a statement from, and will allow the organisation to quickly follow up any statements not received. However, requests for statements should not be made in advance of the deadline.

Confirming Agreed Balances

4.6 Prior to the AoB exercise, a de minimis level is set for responding to statements. The level is set to ensure that a significant amount of intra-group balances are agreed between organisations, while also removing the requirement to chase other bodies for small payments. The exclusion of smaller amounts from the AoB
exercises does not mean that these amounts should not be paid within the course of an organisation's regular business.

4.7 For the 2018-19 financial year, the de minimis level for I&E is set at £100k at Q3. The de minimis level for Rec & Pay agreement is also set at £100k for all exercises. This means that where the net total of all invoices notified by the receivables body (inclusive of credit notes) is above this level, confirmation of the balance agreed to should be issued to the receivables organisation. As I&E up to Q3 should have been reviewed and agreed through the Q2 and Q3 AoB exercise, at Q4 the de minimis level for issuing and agreeing I&E statements is set at £2m, avoiding unnecessary repetition of agreement and reducing the burden on organisations. Details can be found in the table in paragraph 1.10 of this guidance.

4.8 Although there is no requirement to issue a return on balances below these de minimis levels, they still need to be included within the total balances recorded on the collection forms against the relevant receivable body – see section 5. It is considered good practice to issue a return to receivables bodies where a formal dispute is likely to be (or has already been) raised on some or all of the balance. Examples may include where you do not agree to the total invoiced or you are aware that invoices for another organisation have been issued to you (see worked examples at Annex 3).

4.9 If the receivable organisation has sent the payable organisation a template for responding to the statement, this should be used by the payable body to reply/agree their balances. If no pro forma has been provided for completion, then the payable organisation should include the following in their response:

- The invoice number and outstanding balance as indicated by the receivable organisation on their statement.
- The amount of the invoice which is agreed to (or agreed to in principle) – i.e. the amount which the payable organisation has approval to pay.
- The amount of the invoice which is not agreed to, but not yet in formal dispute
- The amount of the invoice which is to be taken to a formal dispute – i.e. the amount which the payable organisation will not approve for payment, and for which the dispute will be formally raised for mediation.
- Where balances are not agreed in full, a description of the requests for additional information is included.
4.10 When communicating approval it is important to distinguish the balance on an invoice that has been approved and agreed to, from the balance which has not. For example, if an invoice is for £30k for a secondment of 30 days’ work (at £1k per day) but the person only did 20 days, the expectation would be that the payables organisation agree to the 20 days worked, but not agree to the other 10 days.

4.11 On responding, it would be expected that the payable organisation would therefore agree to £20k, but not agree (either through formal dispute or otherwise) the remaining £10k. Discussion would then occur between the payable and receivable organisation. In this instance, the receivable organisation would need to adjust their income and receivable amounts in their accounts because they have over invoiced. Both organisations would record a negative adjustment in the “adjustments” column or a revised statement can be issued with prior agreement from both parties and the new amount will be recorded in the Notified column.

4.12 In the example given above, it would not be appropriate for the payable organisation to disagree or dispute the entire invoice balance. Details on how this would be recorded on collection can be found in section 5, and there are further examples given in Annex 3.

**Timing of Response**

4.13 The deadline for responding to statements issued is agreed between the Department of Health & Social Care and its national bodies, in advance of the exercise, and is set out in the DHSC AoB timetable. Payables organisations should ensure that a response should be issued to all statements with a balance greater than the de minimis level before the deadline passes.

4.14 Additionally, wherever possible, the payable organisation should attempt to issue a response to the receivables organisation as soon as possible in advance of this deadline if they are aware that they will not be agreeing to the statement balance in full. This is to let the receivables organisation know about any problems they may not be aware of, and ensure that if information is requested from them they have time to act in advance of the deadline as the receipt of additional information may allow balances to be fully agreed. This will also allow time for the receivable organisation to reallocate balances to the correct organisation if they were allocated incorrectly initially.
Agreeing Accruals

4.15 During the exercises at Q2 and Q3 there is no requirement for the receivables organisations to issue accruals statements; however an additional column has been inserted into the Q3 data collection forms to separately identify accruals. Accruals must be recorded within the collection forms for all exercises to ensure that the ‘total’ figure reflects the true ledger position. At Q4 an accruals statement must be issued and discussions between the two parties must take place, as per the Q4 timetable. Many accruals originate with the payables organisation, such as where goods or services have been supplied, but no invoice has been issued for the goods yet.

4.16 Variances may arise where no such discussion has taken place. These variances can be overcome through discussion between agreement bodies outside of, or in advance of, the agreement exercise to ensure both bodies can agree on the amounts that are due. It is important as part of ongoing business, that payables organisations seek to obtain invoices for goods received where they have not been sent in reasonable time. It is also important that payables enter into discussions regarding estimates.
5. Completing the forms

5.1 In Q3 and Q4, following the agreements process described in section 4, both payables and receivables organisations are required to report their receivable/payable and income/expenditure balances to the Department (or its National bodies):

- NHS Trust and NHS Foundation Trusts submit to NHS Improvement using Provider Finance Return (PFR) forms
- NHS England group bodies submit to NHSE using NHS England data collection
- ALBs and NDPBs submit directly to DHSC using Consolidation Schedules (ALB/NPDBs).

The term “data collection form” will be used in this guidance to refer to all the above forms, and any other form used for submitting balances under the AoB exercise.

Overview of data collection

5.2 Each of the payables, receivables, income and expenditure are split into a further four parts:

- Notified
- Accrued
- Adjusted
- Disputed (Payables/expenditure only)

- Total – this is the amount which is validated against the value of payables and receivables or I & E included in the accounts notes. It is a protected cell containing a sum: Notified + Disputed + Adjustments + Accrued = Total. Organisations are not expected to calculate their own totals.

5.3 For income and expenditure only, the above columns are split between admin and programme. More detail on this split is provided in section 6 of this document. (Note: NHS Trusts and NHS Foundation Trusts income and expenditure is all programme, so this split is not relevant).
5.4 Some data collection forms contain a tab separate to the balance agreements where a justification of the figures can be included. Where any adjustments or disputed balances are included, the gross balance across each organisation type is included within the free text tab on DHSC forms.

5.5 The following subsections show what type of balance should be recorded in each column, and Annex 3 provides examples of how this may work in practice.

**Notified balance**

5.6 In all circumstances, the invoiced balance included on the statement issued by the receivables organisation should be recorded under “notified” if the statement has been addressed to the correct organisation. This balance should be reflected within the payables organisation “notified” total. This is to show that both parties have the same starting position, and therefore where the overall total does not match between two organisations, this is due to true disagreements on the balance recorded elsewhere. This balance should be static, and should not change throughout the exercise.

5.7 The exception to the above is accruals – which should be separately identified on statements. This figure should reflect accruals ledger balances at each quarter exercise.

**Accruals**

5.8 For Q3, accruals must be recorded in the accruals column based on the information held in ledgers, it is likely that any changes agreed between parties in the accruals column, will reflect a divergence from the ledger balance. Although accruals statements are not issued, it is vital that organisations report the figures and mismatches arising from any issues with accruals in order to aid participants at the mismatch resolution stage.

5.9 At Q4 an accruals statement is issued, and discussions should take place to ensure the accruals figure is consistent between counterparties and agreed wherever possible. However, despite the value of the accrual statement, organisations should always ensure their accruals ledger balance is shown in the accruals column – statements are sent at Q4 to inform the discussion.

5.10 Where a balance cannot be agreed prior to the agreement deadline due to un-validated invoices, an adjustment should be made to the notified balance (via the adjusted column), and where invoices received prior to the deadline stated in the timetable have not been validated, every effort should be made to accrue for the
transaction / balance to avoid mismatches. It is not acceptable for mismatches to arise purely because the payable organisation has not yet validated an invoice sent before the deadline specified in the AoB timetables.

5.11 NHS Bodies will have both unvalidated and estimated activity when completing AoB returns. Both parties must agree an approach prior to the AoB deadlines on quantifying both elements to ensure a consistent treatment within their accounts. Providers should ensure that up to date activity information (in the form of a detailed working paper) is shared to allow commissioners to verify and include estimated activity within their position. This should be done in conjunction with the e-mailing of accruals statements by the deadline provided in the AoB timetable.

Adjustments

5.12 An adjustment may be recorded in a number of circumstances. In the majority of cases this will be used to show an amendment to the "notified" balance, where the invoices have not been received or where part or all of the invoice cannot be agreed, but has not been formally disputed. It may be used by the receivable organisation to show adjustments to their own balances where too much or too little was initially notified.

5.13 Receivables Adjustments: A positive or negative adjustment could be made where there is a change in the receivables balance since the statement was issued. This could be due to individual amounts listed on the statement being lower than the outstanding amount or a missing receivable being identified as a result of discussions with a counterparty.

5.14 Payables Organisations: A positive or negative adjustment may be recorded where the receivable organisation gives late notification of an invoice, or notifies that the balance previously included on the statement was too low, or where a future period invoice is included on a statement. These adjustments may subsequently cancel out if they cannot be approved. A positive or negative adjustment may also occur due to invoices which are on a payable organisation's ledger, but were not included in the receivable organisation's statement. In this case the payable organisation should make every effort to obtain the invoice from the receivable organisation.

5.15 Annex 3 contains more detailed examples of where an adjustment balance may be recorded.
Capital Adjustments

5.16 Capital income and expenditure should be included in the issued statements, and should be clearly marked as such. The total notified amount on the statement should be included within the ‘notified’ column. The organisation(s) treating the income/expenditure as capital, should then enter the balance as a negative amount under the ‘adjustments’ column to remove the capital element from the overall trading totals being agreed. This may result in an unavoidable mismatch between the organisations.

5.17 For example, the receivable organisation may have supplied a member of staff to the payable organisation. However, the staff member may have been working on the development of software at the payable organisation, and therefore the payable organisation will not be recording the cost of the staff member as expenditure but rather it would capitalise the cost. As a result, on analysis of their expenditure, the payable organisation would not have the staff cost to match against the receivable organisation’s staff income. In this instance, the payable organisation should adjust out any intercompany transactions relating to capital expenditure in the ‘adjustments’ column.

Disputes

5.18 Balances recorded within the ‘disputed’ column must represent a reduction in the balance (i.e. a negative value) entered by the payable organisation to reflect (only) the amounts in formal disagreement.

5.19 A disputed item should never be positive (as logic dictates that organisations would never dispute that they owed a greater amount). A dispute would occur in a situation where the payables organisation has completed its investigation into the balance, and has determined there is no agreement to pay. This may be due to a contractual disagreement over the amount which should be paid. The payables organisation must be intending to take, or be in the process of taking, the invoice to mediation or through the formal dispute process set out in the contract. Payable organisations must have identified any invoices they are disputing in their response to the receivable organisation so the receivable organisation are aware (see section 4).

5.20 **Receivable Organisations:** A disputed balance should not be recorded on the data collection form, as it would not make sense for a receivable organisation to formally dispute their own invoices. The expectation is that the receivable body will enter all transactions it expects to receive payment for in the “notified” column; it is the responsibility of the payable organisation to dispute that balance.
5.21 **Payable Organisations**: When recording the dispute, only record the element of a transaction which is actually being disputed e.g. if an invoice for £70k only has a dispute of £5k then only the £5k should be recorded. The full £70k would still be recorded under “notified” as it was included on the statement by the receivable organisation. However, the “Total” balance would be reduced by the entering of a negative £5k in the “disputes” column, to show only £65k, which reflects the actual balance that the payable organisation is recording in their accounts. The receivable body records £70k in their return, with the dispute leading to a £5k mismatch between bodies.

5.22 A disputed balance would constitute a valid reason for a variance to exist on agreement of the balances. Payables organisations with disputed balances must ensure that the balance has been disputed for a valid reason, and not just to avoid clearance of variances, and that the relevant national body has been informed in an effort to resolve the dispute.

5.23 **Annex 3** contains examples of where a disputed balance may be recorded.
6. Areas of Potential Issues

Gross and Net Accounting and Recharges

THE DEFAULT TREATMENT IS FOR ALL TRANSACTIONS AND BALANCES TO BE TREATED GROSS

6.1 The overarching principle is that transactions must be accounted for in accordance with accounting standards, with all treatments having been agreed by both parties. IAS 1 states that “income and expenses, may not be offset unless required or permitted by an IFRS. Generally, this means revenue income and expenditure must be recorded gross unless the transaction is of a non-trading nature, and organisation is deemed to have transferred risks and rewards and be acting solely as an agent.

- "Gross accounting" refers to the separate recording of inflows and outflows in an entity's accounts, recognising the impact on the entity's income and expenditure.

- "Net accounting" refers to the netting off of inflows and outflows in an agency relationship, so that the entity only recognises impacts to the extent that it is acting as a principal.

6.2 The accounting treatment of transactions should be agreed in advance between all parties (including the care provider) to ensure consistency. If transactions are to be recorded on a net basis, or as a recharge, organisations must seek to ensure that:

- The accounting treatment of transactions is agreed between all parties to ensure consistency; and

- Agreements reached should be clear and auditable

The general principles are:

- Transactions that are of a trading nature are to be shown gross by both parties;

- Where an organisation acts solely as an agent from the transaction, the item should be treated as a recharge and be accounted for net;

- Receivables and payables should be recorded against the organisations actually paying the invoices, even in an agency situation; and
6.3 An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. For example, with a staff recharge relevant considerations might include who bears the risk if the member of staff is off sick for a period and unable to work, among other factors. If the receiving organisation would continue to pay the employing organisation in the event of a period of sick leave, this might be a factor suggesting that the employing organisation has transferred the risks. As noted in paragraph 6.2 each circumstance should be assessed individually. Organisations should discuss with their external auditor if they need to determine how to account for an arrangement.

6.4 In an agency relationship, the cash may pass from the principal to the agent in advance of the delivery of any actual service. At this point, for the purpose of AoB, the agent recognises a payable and the principal recognises a receivable. However, once the third party has begun delivery of the service, they have earned some income and this is then reflected in the receivables and payables.

6.5 In order to illustrate this, two examples are shown below relating to FTs. NHS England Commissioning entities operating in the ISFE environment should refer to the NHS England attached to Appendix 4.
Reflecting the gross and net accounting in the collection forms: Staff recharges

Foundation Trust A is completing its collection forms. There are four scenarios for how it might have staff recharges with NHS Trust B.

1. Staff permanently employed on Foundation Trust A payroll. Foundation Trust A is recharging NHS Trust B.

<table>
<thead>
<tr>
<th>Type</th>
<th>(1a) GROSS FOR THE EMPLOYER (i.e. risks and rewards remain with Foundation Trust A – FT A is the Principal)</th>
<th>(1b) NET FOR THE EMPLOYER (i.e. risks and rewards passed to NHS Trust B – Foundation Trust A therefore the agent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Trust A: Income</td>
<td>Record in income note with WGA code.</td>
<td>Nothing recorded in income note – items are netted off.</td>
</tr>
<tr>
<td>Foundation Trust A: Expenditure</td>
<td>Record total staff costs as permanently employed against salaries and wages. Record as 'business external to government' with no WGA codes attached to transaction.</td>
<td>Record total staff costs as permanently employed. Record in 'business external to government with no WGA codes attached to transaction. Record income received from WGA body in respect of recharge in 'Recoveries from bodies in respect of staff costs netted off expenditure' in the employee benefits note. This would show as a negative amount to represent receipt. It would be classified as 'external to government'. Overall staff costs would show nil assuming the recharge amount was for full staff cost amount.</td>
</tr>
<tr>
<td>Impact</td>
<td>Show gross income and gross staff costs</td>
<td>Show no income and staff costs netted to £0</td>
</tr>
<tr>
<td>Equivalent for NHS Trust B</td>
<td>NHS Trust B will record the expenditure in staff costs as ‘other’ (rather than permanently employed) and in the WGA analysis for Foundation Trusts.</td>
<td>NHS Trust B will record the expenditure in staff costs as ‘other’ (rather than permanently employed) but will record this as ‘external to government– they are the organisation recording the principal element of the employment cost.</td>
</tr>
<tr>
<td>Transaction elimination for DHSC consolidation</td>
<td>Upon consolidation income for FT A will be eliminated with expenditure from NHS Trust B (both being WGA). FT A staff costs will remain.</td>
<td>Upon consolidation staff costs from NHS Trust B will remain. Foundation Trust A accounts will be already showing nil income and nil staff costs (income netted off staff costs).</td>
</tr>
</tbody>
</table>
2. Staff permanently employed by NHS Trust B. Foundation Trust A is being recharged by NHS Trust B.

<table>
<thead>
<tr>
<th>Type</th>
<th>(2a) GROSS FOR THE EMPLOYER (i.e. risks and rewards remain with NHS Trust B – NHS Trust B is the Principal)</th>
<th>(2b) NET FOR THE EMPLOYER (i.e. risks and rewards passed to Foundation Trust A – the employer NHS Trust B is the agent and does not net accounting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Trust A: Income</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Foundation Trust A: Expenditure</td>
<td>Record staff costs as ‘Other’ against Salaries and Wages. As the transaction is with another WGA body, then transaction should have coding as ‘business with NHS Trust’ and should be shown in that column.</td>
<td>Record staff costs as ‘Other’ against Salaries and Wages. If net then all transactions would be classified as ‘external to government’</td>
</tr>
<tr>
<td>Impact</td>
<td>NHS Foundation Trust A shows staff costs paid in respect of the individual, recorded as a WGA transaction.</td>
<td>NHS Foundation Trust A shows staff costs paid in respect of the individual, recorded as an external transaction.</td>
</tr>
<tr>
<td>Equivalent for NHS Trust B</td>
<td>NHS Trust B will follow the same approach as Foundation Trust A did in scenario (1a) above: Record income in income note (in WGA column for ‘business with foundation trusts’) Record total staff costs as permanently employed against salaries and wages as ‘external to government’</td>
<td>NHS Trust B will follow the same approach as Foundation Trust A did in scenario (1b) above: Record total staff costs as permanently employed. Record in ‘business external to government’. with no WGA codes attached to transaction. Record income received from WGA body in respect of recharge in the employee benefits note. This uses the ‘recoveries netted off expenditure’ row in the employee benefits note. It would be classified as ‘external to government. Overall staff costs would show nil assuming the recharge amount was for full staff cost amount.</td>
</tr>
<tr>
<td>Type</td>
<td>(2a) GROSS FOR THE EMPLOYER (i.e. risks and rewards remain with NHS Trust B – NHS Trust B is the Principal)</td>
<td>(2b) NET FOR THE EMPLOYER (i.e. risks and rewards passed to Foundation Trust A – the employer NHS Trust B is the agent and does net accounting)</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Transaction elimination for DHSC consolidation</td>
<td>Upon consolidation the income recorded by NHS Trust B will be eliminated against the expenditure recorded by Foundation Trust A. The NHS Trust B external staff costs will remain.</td>
<td>Upon consolidation, staff costs from NHS Foundation Trust A will remain. NHS Trust B accounts will be already showing nil income and nil staff costs.</td>
</tr>
</tbody>
</table>
I&E - Admin and Programme Split

6.6 The Department of Health & Social Care Consolidated Supply Estimate, which is voted on by Parliament, splits out Admin and Programme expenditure. The Department is managed against these admin and programme control totals and the breaching of either could result in an Excess Vote accounts qualification and a Public Accounts Committee Hearing. It is important that the amounts recorded as Admin or Programme within the Department of Health & Social Care Consolidated accounts and the AoB exercise are accurate, to avoid under or over eliminating programme or admin expenditure/income as this would affect the performance against the Estimate. Therefore, when agreeing balances, agreement bodies are expected to not just agree the balance, but also agree the type. Whether balances are Admin or Programme will depend on the activity to which the balance relates and the type of organisation the transactions are with.

6.7 It is expected that Department of Health & Social Care, CCGs, CSUs, NHS England Local Offices, Regional Teams and some ALBs will have a split of admin and programme I&E. NHS Foundation Trusts and NHS Trusts will only have programme I&E. There are a number of ALB’s which have admin only; these are NHS Business Services Authority, Health Research Authority, Human Fertilisation & Embryology Authority, Human Tissue Authority and Professional Standards Authority.

6.8 In determining whether a transaction is admin or programme organisations should refer to


The activity to which the balance relates and the type of organisation the transactions are with.

6.9 There will be occasions when it is not possible to resolve mismatches on admin and programme, however each circumstance should be assessed individually and treatment agreed should be clear and auditable

I&E - Admin and Programme Split – NHS Property Services

6.10 NHS Property Services will not apply a generic split of admin and programme to their intercompany income and expenditure, with their income statements specifying total invoiced income without the split of admin and programme.
6.11 Other bodies whose expenditure (and income) is with NHS Property Services should continue to derive, record and report their view of the correct admin/programme split in their accounts and agreement of balances data (including when issuing income statements to NHS Property Services). When discussing and agreeing transactions and balances with NHS Property Services, the admin and programme split should be disregarded.

6.12 Upon receipt of the data from all group bodies (and prior to the issue of mismatch reports), the Department will make central adjustments to NHS Property Services intercompany income and expenditure, to ensure the admin and programme split of the intercompany amounts matches that of the counterparty as far as possible.

6.13 This will remove all admin mismatches with NHS Property Services, except where the counterparty’s view of admin income/expenditure is more than the total income/expenditure reported by NHS Property Services. Any residual mismatches will be subject to the normal resolution process.

Hosted Budgets

6.14 This section provides guidance where additional services are included within the individual body accounts and agreements, as the organisation is hosting/managing the budget, rather than simply providing a service on behalf of another organisation (Hosted Services). For guidance on how to treat services which are provided by one organisation on behalf of another, but do not include the balances in their individual body accounts, see Hosted Services.

6.15 NHS organisations, including the Department, may host services and budgets on behalf of other organisations. The agreement of payables and receivables, income and expenditure is then with the host/managing organisation where the budget for the service is also hosted. For example, if a Trust hosts/manages a research network funded by the Department, it needs to record the total payments received from the Department as income and the payments that it makes to the other NHS organisations on behalf of the network as expenditure.

The risks include;

- How any surpluses are managed
- Whether transactions are treated gross or net.

Good practice would involve frequent sharing of information on hosted surpluses. However, a process is needed to co-ordinate any surpluses that cannot be managed internally by the host body.
Hosted Services (Agency Arrangements)

6.16 This section provides guidance where one agreement body is providing a transactional service on behalf of another agreement body, but are not recording the balances within their own individual accounts. For guidance on how to treat the agreed balances for services where the agreement body includes balances within their own individual accounts and agreements, see Hosted Budgets.

6.17 NHS England have collected a list of hosted services where services are being accounted for net and these are included in Annex 5 (issued separately to this guidance). These are exceptions to the general principles specified in paragraph 6.1 above. Where providers are party to these hosted service arrangements, they should include them in their income statements as being accounted for as net. This means that providers will record the transactions as being from the organisation on whose behalf the service is being hosted, rather than recording transactions with the hosting organisation.

6.18 There are a number of circumstances where organisations may be “hosting” services or activities on behalf of other organisations. The relationship between the organisation hosting the service, and the organisation it is being provided for, can be considered that of agent and principal. In these instances, the agent body will not record any transactions in their financial statements or agreement of balances submissions, but rather the principal, for whom the service is being hosted, will record in their financial statements and agreement of balances.

6.19 Where the agent is completing transactions between two other AoB bodies, where one is the principal, the other is the third party, there shall be no transactions recorded against the agent. The principal and third party will agree the balances between themselves because this reflects the underlying substance of the transaction.

6.20 A specific example of where an agency relationship does not exist is the Research Networks. The lead organisation should treat these as a Hosted Budget as outlined in paragraphs 6.14 – 6.15.

6.21 Examples of such services with the Department of Health & Social Care and NHS Business Services Authority can be seen in the following sections, and examples of how to record this can be seen in section 7.

Specialised Commissioning

6.22 NHS England ultimately holds the national budget for Specialised Commissioning services, with 11 Commissioning Hubs responsible for looking after these services
on behalf of NHS England, and acting as commissioner within their geographical area. For example, a Leeds patient attending a specialist London provider will be paid for by the London Commissioning Hub. Appendix 2 aligns the Providers to the lead Commissioning Hubs and Appendix 3 lists the Commissioning Hubs alongside the other NHS England entities. The Commissioning Hubs also have Agreement of Balances contacts listed on the contact lists.

6.23 Organisations are asked to note that “Secondary Dental Services” are invoiced on a population basis. i.e. the trust will invoice the NHS England Local Office where the patient is resident (rather than where the treatment took place). Statements for Secondary Dental Services should therefore be sent to the relevant NHS England Local Office. To assist providers a list of services by NHS England Local Office is included at Appendix 1.

Application of IFRS 15: Revenue from Contracts with Customers

6.24 Following the implementation of IFRS 15, there may be an additional mismatch arising where income recognition may now be different to expenditure recognition. Although this scenario is unlikely entities should identify how much of their mismatches relate to the application of IFRS 15 and agree the amount with the relevant counterparty. This mismatch should not be adjusted in either entities returns and should not be resolved.

6.25 The overall mismatch between entities will continue to be reported on mismatch reports issued by national bodies, and will therefore include the impact of the IFRS 15 implementation. Organisations may be asked to quantify the impact of IFRS 15 during the mismatches resolution process, so that the effect of these differences can be assessed separately to other mismatch types.

Deferred Income

This section applies to contract liabilities under IFRS 15, and non-contract deferred income/prepayments not subject to IFRS 15.

6.26 Under IFRS, unless contractual obligations are unfulfilled, revenue and the expenditure to which it relates is normally accounted for in the same period. It is not anticipated that NHS bodies should have significant levels of deferred income or prepayments with one another. Commissioners should not make payments in advance of need, especially when making payments close to the year-end, and should always agree payment plans to avoid significant deferred income balances accruing.
6.27 As budgets and drawdown funding are agreed in advance, receivable organisations may not be able to guarantee the return of such income in future financial years should it not be valid spend/warranted. It is also not acceptable for the commissioner to make payments where value has not been received, simply to avoid underspending.

**PDC, Loans, Grant in Aid and Parliamentary Funding**

6.28 All PDC and Loan transactions are excluded from the AoB process as they are funding activities and not trading activities. Likewise, grant in aid, parliamentary funding, share capital and business rates are outside the scope of AoB.

6.29 Where Trusts have incurred a PDC Commitment fee, this will be an invoiced charge, and so should be picked up as a trading transaction for AoB purposes and included in intercompany transactions with core DHSC.

**Transfers under Absorption Accounting**

6.30 Where there has been a transfer of functions in year, the receiving organisation will need to account for the transactions and balances that they received and hold at the year-end. However, the actual gain or loss recognised in respect of the transfer, shown on the Statement of Comprehensive Net Expenditure/Statement of Comprehensive Income, should not form part of the transactions agreed and reported for AoB exercise. The gain or loss on transfer of functions and assets is not a trading transaction and therefore does not fall within the scope of AoB.

6.31 As detailed in the Manual, NHS bodies should nevertheless agree the nature and value of the balances to be transferred (and the associated gain or loss) with the counterparty prior to the transfer to ensure that both parties record corresponding absorption accounting entries in their financial statements. It is essential that both parties agree exactly on the value, as all absorption transfers within the DHSC Group should result in an equal and opposite gain or loss in the Statement of Comprehensive Net Expenditure/Statement of Comprehensive Income.

**Partially Completed Spells (PCS) – Incomplete Spells**

6.32 This paragraph has been updated for IFRS 15 Revenue from Contracts with Customers. Incomplete spells can be significant and, if not established and agreed, could adversely affect an organisation’s ability to achieve its control total. Where a service provider can demonstrate that it is certain to receive income for a
treatment or spell once the patient is admitted and treatment begins, income for that treatment or spell should be recognised from that point.

6.33 Costs of treatment are recognised as incurred. Income relating to those spells that are part completed at the end of the period should be apportioned across the periods on a reasonable basis (which might be an apportionment on stay to date vs expected length of stay or costs incurred to date compared to total expected costs).

6.34 On agreeing costs and revenue from partially completed spells, organisations should additionally refer to paragraphs 6.24-6.25 and appendix 4 of this guidance.

6.35 The expectation is that most transactions will be agreed with and take place with lead commissioners. It is essential incomplete spells are established and agreed to avoid prior-period adjustments arising.

6.36 It is recommended that incomplete spell accruals are assigned a separate balance sheet code (NHS England ledger only), and those accruals are re-established following reversal throughout the following financial year. i.e. once the accrual has been established, the movement only of the incomplete spell will affect the I&E in future years.

6.37 It is expected therefore that for AoB, the adjustment for partially completed spells will be included on the receivable organisation's accruals statement at Q4, but that an invoice won't be raised. Partially completed spells should be recognised as contract receivables: unvoiced or contract assets by the provider and accrued expenditure by the commissioner, where the recognition criteria under IFRS 15 are met.

**Maternity Pathway Prepayment**


6.39 Payment is currently made at the start of the pathway. If this pathway spans the year-end there is, in effect, a prepayment for the commissioner and deferred income for the provider.

6.40 The provider should be best placed to identify the stage that each pathway is at, and therefore calculate the accounting estimate. CCGs will want assurance to
validate this amount and they should engage with the provider and be content with
this amount.

6.41 It is expected therefore that the prepaid element of the maternity pathway will be
included on the accruals statement at month 12. The items should be separately
identified, the maternity pathway being a contract liability (deferred income from a
provider’s perspective.

6.42 Therefore the correct accounting treatment for maternity pathway is for the
provider to treat it as deferred income/ payable and the commissioner to treat it as
prepayment/receivable, for these two elements is as follows:

- Maternity pathways should be treated as contract liability (deferred income)
  (providers) and prepayment/receivable (commissioners).

6.43 The payables/receivables balances submitted on the collection form for months 9
and 12 should include these balances. If these balances are not exchanged
between provider and commissioner at month 9 and 12, the previous years’ month
12 balances should be assumed.

Non Contracted Activity (NCAs)

6.44 Timing of year-end processes precludes determining the final figure for non-
contracted activity for the final quarter of the year within the AoB timescale.
Therefore, the year-end figures have to be based on estimates which may be
different to the final outturn for the year. Both parties will have had methods for
estimating the volumes and prices and these methodologies may well have
produced different results. Ideally, providers and purchasers, with providers taking
the lead, should agree an amount to include. However, if this is not possible then a
general non-provider specific ‘provision’ is acceptable and accommodated for in
the data collection forms. This ‘provision’ will be subject to audit scrutiny and must
be reasonable and justifiable.

Treatment of NCAs

6.45 For commissioners, if an NCA balance is included on a statement it should be
included as either a notified amount (if on the creditor’s statement) or an accrual
amount (if recorded on the ledger) against that provider. Any “general” NCA
accrual should be recorded as an adjustment on the FT/Trust general NCA line.
NHS England will query with commissioner organisations large balances on these
lines. To enable reconciliation, Analysis 2 codes for general NCA (NCSFTR for
FTs and NCSNFT for NHS Trusts) have been created.
6.46 For providers there will also be a general NCA line included on the collection forms.

**Contract Penalties**

6.47 There may be circumstances at the year-end where contract penalties for non-performance or other penalties are anticipated. The payable and receivable organisations should have a shared agreement on the likelihood of these and appropriate accounting treatment within both their ledgers. The proposed accounting treatment should take account of the activity validation and contract reconciliation processes and associated timescales.

**Pooled Budgets**

6.48 There should be no balances, arising from pooled budgets, because members of the pool only account for their own contributions and the pool has no existence as a separate body. Receivable/payable balances and income/expenditure are with the individual bodies in the pool, not the host body. Where a lead body holds cash contributions at year-end, each body will only account for their own share of the cash according to the terms of the pooled budget agreement.

**Better Care Fund**

6.49 Organisations need to ensure that they have a clear understanding of their own and their counter-parties’ accounting and reporting arrangements. This will make it easier for organisations to understand the transactions required for AoB purposes.

6.50 Agreements in place should ensure that Better Care Fund pool members and NHS providers are given, on at least a quarterly basis and soon enough to be useful, statements that detail the underlying transactions with the appropriate pool member counterparty.

6.51 Organisations should also have referred to the agreements in place to ascertain how best to account for AoB entries. Organisations must be able to justify their treatment to Audit.

6.52 Detailed guidance is provided in Chapter 4, Annex 8 of the GAM. A list of NHS England BCF services accounted for net can also be found within Annex 5 of the Agreement of Balances guidance. All parties (including providers) should
scrutinise these lists to ensure they are aware of any agreements accounted for net to ensure statements are sent to the correct party.

**Provider Sustainability Fund (PSF)**

6.53 Some NHS Providers will be entitled to a share of PSF funding. PSF funding is paid on a quarterly basis conditional upon the achievement of financial and performance targets. NHS England is responsible for making all of the cash payments for PSF to Providers, in line with the final version of the payment schedule, following the “quadruple unlock” process. As such providers should record the income (and any associated receivables) against the NHS England Core (CBA033). Although this income will not be invoiced, Providers should ensure that it is still recorded on the data collection forms in order to avoid unnecessary mismatches.

6.54 Indicative Q4 PSF entitlements (core and, where applicable, incentive / bonus) will be notified to providers after the issue of accruals statements. Accruals statements issued by providers should therefore not include any amounts relating to Q4 – the indicative entitlements will be notified to NHS England by NHS Improvement on Providers behalf. In the data collection forms at Q4 the notified column should only include PSF entitlement up to and including Q3. Q4 PSF entitlement (core and, where applicable, incentive / bonus) should be included in the accruals column of AoB schedules.

**Negative Balances**

6.55 A negative balance should be defined as a debit balance on Accounts Payable (AP) and a credit balance on Accounts Receivable (AR). These balances still require agreement during the Dr / Cr AoB process in accordance with the de minimis rules, and the AoB timetable.

6.56 IAS1 states that an entity should not offset income and expenditure unless the offsetting reflects the substance of the transaction. For example, if a credit note relates to an invoice on the ledger, it is correct that it remains on the AP side. However if it does not relate to the transactions on that ledger or there is no longer any balance, it should be moved to the opposite ledger.

6.57 To avoid additional work at year-end, and during balance agreement, it is highly recommended (and good practice) that organisations clear these types of errant balances from the AP & AR ledgers throughout the year. Credit balances on AR usually arise by the issuing of a credit note for an invoice that has already been settled, or by the receipt of an over-payment being a higher value than the
outstanding invoices. This should be repaid to the negative receivable organisation via a payment.

6.58 Debit balances on AP arise for the opposite and corresponding reason. The payable organisations credit control department should be made aware of debit balances on the AP ledger, to incorporate them into a collection process, should repayment not be received from the originator.

6.59 The treatment of negative balances, and subsequent practices to clear the balances, applies equally to NHS and non NHS organisations.

Additional guidance for Credit Notes

6.60 Where a statement contains a credit note, the payable organisation must make additional checks to ensure that the correct action has been taken on their ledger with regards to the initial invoice. For example, to avoid situations where an invoice is disputed but a credit note for that invoice is accepted, organisations should ensure that the invoice being netted by the credit note is on their ledger and is outstanding, and has not been cancelled. This is to reduce the possibility that organisations do not benefit from credit notes that should not have been accepted.

Additional guidance for Unallocated Payments

6.61 In anticipation of the AoB exercise, any unallocated payments should be investigated and cleared wherever possible prior to the AoB exercise. However if this isn't achievable and it is included on the statement, the receivable body should be informed of the invoices and any additional relevant information, the payment covers. If the reason for the payment can be identified, the two organisations should enter an adjustment to reduce the balance and only transfer the balance to the opposite ledger if it cannot be accepted as an expected payment.

Allowances for expected credit losses

6.62 Although an allowance for expected credit losses may be necessary for non-WGA bodies, with the possible exception of NHS Foundation Trusts, DHSC bodies are not normally expected to make such allowances for WGA bodies, especially organisations within the Department's boundary. Even within the NHS Foundation Trust sector the raising of intra-group bad debt provisions is strongly discouraged.
6.63 When issuing statements showing receivables balances, receivables bodies are reminded that the full debt outstanding should be included. This should then be recorded unadjusted (subject to amendments to errors) in the notified column of the data collection form data collection forms.

Other provisions

6.64 Provision expenditure is an accounting estimate and therefore not a trading balance. Such expenditure and related provisions balances do not form part of the AoB process. Expenditure recorded in relation to a provision made in year should be included as 'external to government' in consolidation schedules.

Charitable Funds

6.65 NHS charitable funds (whether consolidated / IFRS10 or not) do not participate in the AoB exercise. AoB data collection forms should therefore be completed excluding charitable funds.

Non-invoiced Income

6.66 There are circumstances where an organisation does not send an invoice in relation to income received, for example grant income. However, it is important that this income is included in the AoB exercise to ensure that all relevant transactions are included. When recording grant income on statements it is important to record as much information as possible, and to separately record individual transactions in order that the payable organisation can easily agree transactions. Additionally, un invoiced income should be accrued in order that the accounts reflect the true financial position and that transactions are shown in the correct year, avoiding unnecessary mismatches.

Recording Transactions in the Correct Year

6.67 There are occasions when organisations have transactions in different years and this causes a mismatch. As it is necessary that the Agreement of Balances data matches the accounts data, this is difficult to resolve and can result in an irresolvable mismatch. It is important therefore that all organisations accrue for goods and services in the correct year, in order that these types of mismatches are eliminated going forward. A mismatch relating to the accrued income and expenditure position at the year-end is likely to lead to the same mismatch in the
opposite direction in the following year. This situation can be avoided by agreeing the original year-end position.
7. Agreeing Balances - recording Sub-Entity transactions

Balances with NHS England

7.1 As in previous years, balances with NHS England entities i.e. Local Offices, Regions, Specialised Commissioning Hubs, CSUs and the NHS England Core Central team are treated as separate organisations for AoB purposes, and Receivable organisations must send separate statements to each. A full list of the NHS England entities can be found at Appendix 3, these are all listed on the AoB collection forms. Contacts for all NHS England entities are provided on the AoB contact lists, which are circulated by the National Bodies.

7.2 Providers should have the ability to establish the correct NHS England entity to receive relevant statements from, to record balances and issue statements to. If statements are sent to the incorrect NHS England sub-entity, this could result in entries on the statement being adjusted, causing mismatches across the AoB exercise. To assist Providers in this process, Appendix 1 sets out the services that continue to be commissioned by each NHSE England Local Office and Appendix 2 sets out the lead NHS England Specialised Commissioning Hub for each provider.

7.3 Providers may contract with more than one NHS England sub-entity for different services e.g. a specific Specialised Commissioning Hub for specialised services and a specific Local Office for Secondary Dental Care and, in addition, may also contract with the NHS England Core Central team.

7.4 There are a small number of services which should be invoiced (and statement sent) to the NHS England Core Central team. This will be for specific programmes and secondments of staff within NHS England, for example:

- PFI Schemes
- Revenue support schemes
- Individual agreements relating to service provision e.g. IT, premises
- Provider Sustainability Funding (PSF) (N.B. PSF is not invoiced - see 6.53 above)

Please note this list specifically excludes Clinical Excellence Awards as these invoices are not agreed by CBA033. These must be agreed with the relevant NHS England Local Office.
7.5 There should be no instances where the Receivable organisation cannot identify the NHS England sub-entity. Providers must not use the NHS England Core team as a default entity. Invoices for healthcare are not expected to be included on statements addressed to the NHS England Core Central team (unless the invoice relates to a healthcare service where it has been established as an NHS England centrally procured service). If the invoice is incorrectly included on the NHS England Core Central team’s statement, the invoices will be adjusted out by the team and a mismatch may occur. The NHS England core team will be a line on the AoB collection form (CBA033). There will not be a “default” line for NHS England. If Provider ledger systems are not configured to support the issuing of statements automatically to the various sub-entities of NHS England the Providers will need to produce and issue the statements manually and prevent any automatic issue of statements from their ledger.

7.6 NHS England, Regions, Local Offices, Specialised Commissioning Hubs, Core Central team and CSUs (as payable organisations) complete the AoB process as separate AoB organisations i.e. they receive their own individual statements and complete their own AoB collection forms. If a NHS England entity does not recognise an invoice entry on the statement it receives and is unable to resolve with the counterparty, it should adjust that entry on its response to the Provider, stating “invoice not recognised by this NHS England entity”. Conversely, if a Local Office, Regional Team, Specialised Commissioning Hub, CSU or the NHS England core central team are expecting an invoice to be included on a Provider’s statement and it is missing, they should adjust for this on its response to the Provider (including the invoice number). This will also improve subsequent exercises as Providers will be aware of where entries on statements may have been sent to the incorrect sub-entity.

7.7 Where NHS England Region, Local Office, Specialised Commissioning Hub, or Core Central team is the Receivable organisation the process is coordinated and managed by the NHS England Central Team.

7.8 Providers should note that statements to CCGs should be sent directly to the relevant CCG.

7.9 NHSE appendices can be found at the end of this document:

Appendix 1 – Local Office to commissioned service matrix

Appendix 2 – Specialised services provider to Commissioning Hub matrix

Appendix 3 – List of Local Office, Regional Team, Commissioning Hub and CSU codes (including the NHS England core team).
Appendix 4  – Gross/Net Accounting and Hosted Services Guidance

Balances with Other Bodies

7.10 There are a number of relationships and transactions undertaken by the Department that have historically caused issues:

7.11 **NHS Supply Chain**: NHS Supply Chain manages a number of contracts on behalf of other NHS bodies. As they are acting as an agent for these bodies, balances in these areas should be recorded against the relevant NHS body. Please see below a list of how transactions are to be reported in respect of NHS Supply Chain:

- Report against PHE033 (Public Health England) where the invoices are prefixed with the numbers 901 (Pandemic Flu), 902 (Vaccines) and 903 (Emergency Preparedness EPRR).
- Invoices prefixed with the numbers 101, 201 and 905 are to be reported as external to government and should not be included as part of the AoB exercise.

7.12 Only expenditure incurred in the areas listed above should be included in the agreements exercise. As part of the agreements process, DHSC and PHE will include relevant invoices on their statements. If the balance is not relevant to the agreements process it will not be included on a statement. All other Supply Chain balances should be treated as with a non-WGA body, under External to Government in the accounts.

7.13 **EHIC Incentive Scheme** – DWP pay EHIC Incentive Scheme invoices on behalf of the Department of Health & Social Care, however all transactions should be recorded against DHSC. For queries regarding payment dates, please contact DWP on OHT.overseasvisitorsteam@dwp.gsi.gov.uk.

7.14 **National Ambulance Resilience Unit** – Funding for the National Ambulance Resilience Unit passes through the West Midlands Ambulance Service (WMAS). See Annex 4 Hosted Services for how this should be treated in agreements.

**Include against other body:**

7.15 **Research Networks** – The lead organisation should account for the research network in full and include any research network balances and transactions between the network and the network members within the AoB exercise. The Department will account for its transactions and balances with the lead
organisations. The research network contracts signed with lead organisations to host the networks included a requirement to account for and manage the funds and therefore the lead organisations are acting as more than just a payment agent and therefore this arrangement does not meet the definition of an agency relationship and the transactions cannot be treated net.

**Excluded:**

7.16 **Injury Benefits** - Injury Benefits is the payment of injury benefits to individuals injured at work, which is done centrally through a DHSC contract with Xfinity, to reduce the cost of each organisation separately setting up arrangements for the payment of injury benefits. However, because the Department is acting merely as a payment agent on behalf of NHS organisations, the substance of the transaction is really the payment of individuals, outside the accounting boundary, and therefore this arrangement is not within the AoB process. All injury benefit transactions and balances should be treated as “external to Government”.

7.17 **Hospital Prescribing Prescription Pricing Authority**: Also known as FP10s, the NHS BSA invoices other agreement bodies to recover costs it has incurred in reimbursing third parties for prescription charges. In this arrangement, the NHS BSA is providing a service to DHSC who in turn is acting as an agent on behalf of all agreement bodies which it invoices, as the bodies are not required to make payment directly to the third party, the agreement bodies are the principals in this arrangement. Therefore, costs incurred should not be recorded against NHS BSA or the Department, but treated the same as any other external (non-WGA) balance.

7.18 **Defence Costs under Liabilities to Third Parties Scheme (LTPS)** – NHS Resolution acts as a payment agent on behalf of NHS Providers/the Panel Firms by collecting and passing on payments in relation to the defence costs for the Liabilities to Third Parties Scheme. The principals to the transaction are the NHS Providers and the Panel Firms with NHS Resolution acting only as an agent. Panel Firms are external to Government and therefore outside the scope of AoB. As such, income and expenditure for LTPS should not be included within AoB. Receivables and payables in respect of amounts due but not yet paid should be recorded against the host – NHS Resolution.

**Balances with NHS Business Services Authority**

7.19 The NHS Business Services Authority (NHS BSA) carry out a number of services on behalf of the Department of Health & Social Care group. Some of these services could be considered as hosted services, others as hosted budgets, such as Electronic Staff Records (see 7.20 below).
Electronic Staff Records (ESR)

7.20 Responsibility for accounting for ESR has transferred to NHS BSA as at 1st April 2018. Therefore any outstanding balances or queries should be directed to NHS BSA.

NHS Property Services

7.21 When agreeing Payable and Receivable balances with NHS Property Services, invoices should include VAT. This is because the whole amount of an invoice is either payable or receivable irrespective of whether an organisation can re-claim the VAT or not. When agreeing income and expenditure the amount agreed and recorded should be the net amount (i.e. excluding VAT) where the VAT is recoverable.

Nursing and Midwifery Council

7.22 A line has been included within the ‘Other Group Bodies’ category in the data collection forms for organisations to include balances against, however as an independent regulator, they will not be taking part in the agreements exercise.

The Health and Care Professions Council

7.23 The Health and Care Professions Council is not required to participate in this year’s agreement exercises. A line has been included within the ‘Other Group Bodies’ category in the data collection forms – it remains necessary to record balances and transactions with the HCPC on this line.

Wiltshire Health and Care

7.24 Wiltshire Health and Care is a joint venture between three NHS FTs. This is in the Departmental Group and any transactions with this organisation should be recorded against organisational code AXG within the ‘Other Group Bodies’ category.
NHS Resolution (formerly NHS Litigation Authority)

NHS bodies including provisions as a payable with NHS Resolution (NHSR)

7.25 NHSR provides its members with various reports at year-end, of which one relates to the Risk Pooling Scheme for Trusts (RPST) provisions it holds in relation to its members. NHS bodies are required to include a total provision as at 31 March for their estimated liability on each claim as at that date. NHS bodies should not be including the liability as a payable to NHSR as the payments to be incurred in the future are not payments that are ultimately payable to NHSR.

NHS bodies excluding Direct Debits from their analysis of income and expenditure

7.26 Where a NHS body pays the NHSR contributions via direct debit the NHSR raises and sends invoices that match to each direct debit or a sum of the direct debits taken. The total expenditure value that NHS bodies should be including within the AoB exercise should reconcile to the total value of contributions including paid and unpaid, irrespective of the method of payment. NHS bodies should include all contribution expenditure with the NHSR irrespective of whether an invoice is posted to the purchase ledger or not.

7.27 Additionally, expenditure is incurred against NHSR on a monthly basis, rather than in one lump sum. Agreement bodies should therefore apportion the expenditure across the financial year, recording one twelfth of the total payments to be made for each month. As an example, the agreement body would be expected to show expenditure of three-quarters of the total due to NHSR at Q3.

Supply Chain Coordination Limited (SCCL)

7.28 Supply Chain Coordination Limited (SCC033) has been designated as part of the Departmental Group from 2018-19 and will be participating in the agreement of balances exercise. This does not change the arrangements regarding balances with Supply Chain outlined in 7.11 Transactions and balances to be recorded against and agreed with SCCL in 2018-19 as part of the AoB process should only include transactions relating to the SCCL entity and nothing related to the supply chain.
Part year NHS Foundation Trusts

7.29 When accounting for gross income and expenditure categorisation on the data collection forms, the recording of the I&E changes from Trust to Foundation Trust after the date of status change. Any I&E before this date should be recorded against the NHS Trust (Goods and Services from other NHS bodies), and any after this date against the Foundation Trust (Goods and Services from Foundation Trusts). It is very important that commissioners split AoB income and expenditure between the period the counterparty was an NHS Trust and when it was an NHS Foundation Trust. Failure to do so leads to mismatches on all sides of the transaction and contributes to the overall gross mismatch.

7.30 On the date of change, the Trust will be required to ‘hard close’ the ceasing organisation’s financial accounts and ledgers. At this point Income & Expenditure should be agreed between all parties concerned, and that agreed balance should form the basis of the data collection at future quarters throughout the year i.e. the Trust position struck at closedown will not alter, as all future I&E transactions will be recorded against the FT.

7.31 The payable and receivable position should be agreed at hard close, but upon change of status, those payables and receivables will transfer to the newly formed FT for future agreements. i.e. there will be no longer any Trust balances, they will become FT balances.

7.32 From this date all payable and receivable balances will be recorded against the FT, whether or not generated / issued prior to authorisation date, as balances will have transferred to the new organisation. This may necessitate re-coding of the primary AP & AR ledger to ensure the new supplier/customer has FT categorisation.

Reorganisation of providers involving transfer of services

7.33 Where a provider demises in year and services transfer to another provider, the change in status will be marked on collection forms. Individual scenarios will differ and bodies should follow specific guidance issued in relation to those transactions regarding contact details and the recording of balances.

Subsidiaries

7.34 Subsidiaries of NHS bodies do not participate in the AoB exercise. However where a subsidiary of an NHS body provides goods or services to other NHS bodies, the subsidiary’s income should be recorded within its parent body’s income, which in
turn forms part of the agreement of balances exercise. The (parent) NHS body should therefore include any of the subsidiary’s income on income statements sent out as part of the agreement of balances exercise, making it clear on the statement that the counterparty is in effect trading with the NHS body for agreement of balances purposes.

7.35 The counterparty should record any expenditure with the subsidiary as being with the (parent) NHS body.

7.36 AoB collection forms should therefore be completed with subsidiaries’ transactions/balances included in the parent NHS body’s total transactions/balances.

Example

Organisation A FT (Org A) provides £300k of services to Organisation B (Org B) Trust. Org A also has a wholly owned subsidiary that provides £60k of services to Org B. For AoB purposes, Org A should record £360k of income on its income statement, clearly marking up the £60k of services that were provided by its subsidiary. Org A should also record £360k of income against Org B on its AoB form, and Org B should record £360k of expenditure against Org A.
8. **Mismatch Reports and Resubmissions**

8.1 On receipt of the data collection forms, the Department of Health & Social Care finance team imports the balances into the accounts consolidation system for all DHSC Group Bodies. This allows comparison of the balances submitted by each organisation. The receivables balance submitted by one organisation is compared against the payables balance recorded by the partner agreement body. If the exercise has had no problems, then there will be no variances/mismatches between organisations. Where mismatches exist, the system generates the mismatch report which is then sent to organisations via their national bodies, and to ALBs by DHSC.

8.2 The mismatch report is designed to assist agreement bodies to resolve mismatches in the total balances submitted on the data collection forms. The mismatch resolution de minimis is defined depending on the total mismatch across the group, and the action that would be required to reduce the group mismatch to an acceptable level. Therefore, tolerances will vary between exercises, as will the requirements for resubmission.

8.3 The mismatch reports each consist of two worksheets which show the information in two formats – this is purely presentational. The mismatch reports are sorted by variance between the total balance of two partner organisations. This report also shows differences between the Notified balance, the Adjustment balances, the Accrued and the Disputed amounts. While the Department recognises that it may not be possible to resolve all mismatches where disputes or differences in estimation occur, the total mismatch must be reduced to zero wherever possible.

8.4 To ensure that entities are correctly matching the split of administration and programme balances correctly - see I&E - Admin and Programme Split, the income and expenditure reports for some entities show this split of balances. A third category (admin + programme) is required where, for example, a CCG has a balance with a NHS Trust or NHS Foundation Trust, as those organisations have programme balances only in comparison to a counterparty organisation's legitimate classification of a balance as admin. After the issue of mismatch reports, the timetable may include an opportunity to resubmit balances. It is an opportunity for agreement bodies to update their balances where differences have been resolved since the agreement deadline. Prior to the deadline, bodies should attempt the following:

- **Notified mismatches** – both organisations should have the same notified balance, being the same as the statement issued (or income under £10k,
where no statement is issued). The receivables organisation should lead in resolving the problems.

- **Accruals mismatches** – where a difference arises due to an accrued transaction or balance, both parties should attempt to make contact with the counterparty in an attempt to reconcile and resolve the difference. A separate date is included in the Q4 timetable by which discussions regarding accruals should be completed. Mismatches arising as a result contribute towards the overall variance and the Department of Health & Social Care will follow up large discrepancies in this area.

- **Adjusted mismatches** – where adjustments do not match, and do not equal the balances not agreed to prior to the deadline, the receivables organisation should request details of the additional balances. Updates should be made by the payables organisations where balances that could not previously be agreed to now can be.

- **Disputed mismatches** – where the payables organisation has disputed balances, it is likely that these will not have been resolved. Receivables organisations should contact the payables organisation where the dispute was not known about. If a dispute is accepted by the receivable organisation, both bodies may move the item to the adjustment column, meaning both bodies are in agreement.

8.5 It is recognised that it may not be possible for all variances to be resolved for various reasons. Every effort must be made by AoB organisations to ensure that the balances submitted match, through discussion prior to and during the agreements exercise. Where it is not possible for these variances to be resolved (e.g. a disputed balance that has been escalated) it is important that the reason for the difference is recorded and submitted via the available freetext boxes on the data collection forms where applicable.

8.6 Other unknown variances should still be investigated to ensure that incorrect assumptions for the cause of the variance are not made.
9. Resolution of Disagreements

9.1 In order to ensure the balances incorporated into the Department of Health & Social Care Consolidated Annual Report and Accounts are accurate, and that the overall misstatement is as low as possible, it is important to make sure that any variances are resolved between agreement exercises, and as little as possible needs to be resolved by the year-end.

9.2 As it is the absolute difference that contributes to the level of uncertainty regarding the potential misstatement of the Department of Health & Social Care Consolidated account, it does not matter who is not agreeing the balance, whether it is the receivable or payable (or income or expenditure), which has the higher overall total. It is the absolute difference contributing to the misstatement.

9.3 For this reason, it is extremely important for organisations to agree the correct treatment of admin and programme I&E. If two organisations agree the balance exactly, but one records it as admin income, the other as programme expenditure; then the difference in balances might net to zero, but in the interpretation of the misstatements there are two separate problems – one organisation with an unmatched admin balance, and another with an unmatched programme balance. Therefore, this creates a variance twice the size which could have been eliminated through better analysis and agreement of the balance. Organisations are therefore reminded to check their definition of admin and programme is understood prior to entering into the agreement exercise.
Annex 1 - Examples of Statements

Issuing Statements to Organisations

Examples of how a good statement looks:

Form 1 – a good example of a statement issued. It should be in Excel format. It contains details of the payable and receivable organisation expected to agree balances, full details of the invoices and any additional details and return contact details should be provided, should any queries arise from the statement.
Form 2 – this statement contains the basic information required by para 3.1. It was issued in Excel format, which allows for copying into a spreadsheet or database. Additional pages of the form allow the payables body to update and return the agreement, as per para 4.9.
Annex 2 – Whole of Government Account – Agreeing and recording balances

As a government department, the Department of Health & Social Care is required to submit details of its consolidated account to HM Treasury, which is then consolidated into a Whole of Government Account. Part of this process requires the identification and elimination of balances arising between DHSC and other government departments.

To accurately record these in the data submission, details of transactions between the departmental group and the other entities under government control are requested, and collected alongside the AoB data.

Any queries arising from this part of the guidance should be directed to wga@dhsc.gov.uk.

Whole of Government Accounts Balance Agreement Process

An agreement exercise takes place each year after the year end cut-off date, between April and June. Like the AoB exercise, the WGA agreements are led by the receivable organisation (provider under the WGA guidance) and it is up to the payable organisation (purchaser) to confirm whether the balances are correct.

Full guidance can be found on at https://www.gov.uk/government/publications/whole-of-government-accounts-2017-to-2018-guidance-for-preparers and is usually updated in March (guidance for 2018/19 is yet to be published). Chapter 7 of the guidance for central government covers the balance agreement in detail, however the key points are summarised below.

Agreement thresholds: as a minimum, CCGs, Executive Agencies, NDPBs and Special Health Authorities (SpHA) are required to agree receivables/income balances over £5m via the HM Treasury standard agreement form (CG01), and respond to any requests to agree payables/expenditure over this amount.

NHS Providers and other group bodies not yet mentioned are not required to agree balances, but must disclose all balances on the AoB collection forms in line with the guidance below. The table below summarises the requirements by sector.
**Reporting and Agreement Requirements**

<table>
<thead>
<tr>
<th></th>
<th>CCGs</th>
<th>NHS Providers</th>
<th>SpHA, NDPBs and Other bodies**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement*</td>
<td>&gt;£5m</td>
<td>N/A</td>
<td>&gt;£5m**</td>
</tr>
<tr>
<td>Reporting</td>
<td>All</td>
<td>All</td>
<td>All**</td>
</tr>
</tbody>
</table>

*Note – Where both parties have a balance below this threshold, agreement is not mandatory, but can be completed if both parties are happy to complete.

** Note – Public Corporations are also exempt from agreement and therefore these thresholds do not apply to Public Corporations

**Exempt entities**: certain other entities under WGA are exempt from agreement. Therefore, where balances are above the agreement threshold with any of the following groups of bodies, agreement is not required:

- HMRC (in relation to tax and duties)
- National Insurance Funds
- Academies
- Local Authorities
- Other Public Corporations
- Minor Bodies as defined in agreement with HM Treasury, and listed in Appendix 1 of the HMT Treasury WGA guidance.

Balances with these entities still need to be disclosed on the collection forms.

**Reporting WGA balances**

Alongside the list of group bodies that form the internal AoB of balances discussions, there is a list of entities required for WGA disclosure. This list is reviewed and updated by the DHSC WGA team, and the entities most relevant to the departmental group are included. If you believe that an entity is missing, then please contact the WGA Team to discuss further.

The entities are split into the following sectors:
• Non-consolidated NHS bodies which are considered public corporations (NHS Blood and Transplant, Medicines and Healthcare Regulatory Agency)

• Local Authorities (further split into England, Northern Ireland, Scotland and Wales)

• Public Corporations

• Other WGA entities, including central government departments and devolved administrations (including Welsh and Northern Irish health bodies)

All balances, whether subject to agreement or not, should be recorded in these sectors, split by receivables, payables, income and expenditure (and programme/admin where relevant). The codes for these entities are aligned to the codes setup by HM Treasury on their collection forms/system.

Business rates are outside the scope of WGA and as such it is not necessary to record these on the AoB tab against the specific organisation.

In some cases, DHSC is required to map balances to specific entity codes, based on how the account balance is allocated. Therefore, please allocate the following balances to these specific entity codes:

**NHP903**: Pensions expenditure incurred with NHS Pensions, and relevant receivables/payables. Expenditure should equal the balance included under the staff costs line plus any termination benefits costs incurred with NHS Pensions.

**PCS901**: All relevant pensions expenditure, receivables and payables due to the Civil Service Pensions Scheme.

**IRT813**:

• **Receivables** - relating to VAT, other tax and social security receivable from HMRC;

• **Payables** - relating to VAT, other tax and social security payable to HMRC;

• **Expenditure** - relating to social security costs, corporation tax, other taxation incurred with HMRC and the apprenticeship levy;

• **Income** – there is not expected to be any income from HMRC.

**Note 1**: Pay as you Earn (PAYE)/Income tax deducted from employees salary should be included under payables if it is still due to be transferred to HMRC, and should not be included within the expenditure figure as it is an expense incurred by the employee.

**Note 2**: Balances should not be allocated to NIF822 National Insurance Funds.
**HMR041**: Non taxation balances incurred as a trading transaction should be recorded against this code, not IRT813.

**NLF888**: all short term investment balances held with the National Loans Fund at year end should be recorded under receivables (the balance should equal the total of deposits disclosed elsewhere on the forms), along with interest receivable on the investment not yet paid over. Interest gained during the year on investments should be recorded under income.
Annex 3 - Agreement Examples

Example 1 - negative adjustments

If you are the payable organisation, and you do not agree to the total or part of the invoiced amount included on the statement sent to you by the receivable organisation or the invoice has been raised against the incorrect counterparty (but the amount has not yet been formally disputed), the correct treatment is to adjust the balance in the “adjustments” column of the data collection forms as follows:

<table>
<thead>
<tr>
<th>Maincodes</th>
<th>Notified</th>
<th>Accrued</th>
<th>Adjusted</th>
<th>Disputed</th>
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<tbody>
<tr>
<td>7300010</td>
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</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Org Code</th>
<th>Org Name</th>
<th>Payables £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOH033</td>
<td>Organisation A (receivable org)</td>
<td>Notified: 70</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accrued: (5)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adjusted: -</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Disputed: -</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total: 65</td>
</tr>
</tbody>
</table>

The full amount is shown in the notified column. This is the full amount on the statement received from Organisation A.

The amount shown in the adjusted column is the amount that Org B does not believe is payable. This could be because they have not received the goods or services, they have been incorrectly invoiced.

Example 2 – positive adjustments

A positive adjustment may be recorded where the receivable organisation gives late notification of an invoice, or notifies that the balance previously included on the statement was too low. These adjustments may subsequently cancel out if they cannot be approved. A positive adjustment may also occur due to invoices appearing on your own reports that were not included within the statement you have received but which you still have as outstanding.
The full amount is shown in the notified column. This is the full amount on the statement received from Organisation A.

The amount shown in the adjusted column is the amount that Org B does not believe is payable. This is the amount that Org A has informed Org B that they have mistakenly missed off their statement.

<table>
<thead>
<tr>
<th>Org Code</th>
<th>Org Name</th>
<th>Notified</th>
<th>Accrued</th>
<th>Adjusted</th>
<th>Disputed</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>DOH033</td>
<td>Organisation A (receivable org)</td>
<td>70</td>
<td>5</td>
<td>-</td>
<td>75</td>
<td></td>
</tr>
</tbody>
</table>

The full amount is shown in the notified column. This is the full amount on the statement sent to Organisation B.

The amount shown in the adjusted column is the amount that Org B does not believe is payable. This is the amount that Org B has informed Org A that they have mistakenly missed off their statement.

<table>
<thead>
<tr>
<th>Org Code</th>
<th>Org Name</th>
<th>Notified</th>
<th>Accrued</th>
<th>Adjusted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOH033</td>
<td>Organisation B (Payable org)</td>
<td>70</td>
<td>-</td>
<td>5</td>
<td>75</td>
</tr>
</tbody>
</table>
Example 3 - disputes

A disputed balance may only be recorded by a payable organisation, as the receivable organisation would not include a balance they do not believe to be owed in the statement they issue. Therefore, the disputes will always create a mismatch between the payable and receivable organisation. Whilst this is an acceptable reason for mismatch, organisations should actively manage the resolution of disputes to keep the level of mismatches to a minimum. Only amounts which are, or are intended to be, formally disputed balances notified in writing should be included here. Figures in respect of disputes are always negative.

Therefore the following entries would be included by the payable organisation only:

<table>
<thead>
<tr>
<th>Maincodes</th>
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<th>Adjusted</th>
<th>Disputed</th>
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<table>
<thead>
<tr>
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<th>Org Name</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Organisation A (receivable org)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payables £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notified</td>
</tr>
<tr>
<td>70</td>
</tr>
</tbody>
</table>

This is the full amount on the statement received from Organisation A.

The value of the disputed invoice is input as a negative figure to reduce the total amount.

The AoB process relies on invoices being raised and paid in a timely manner. All organisations should endeavour to do this at all times to avoid the need for requesting large numbers of copy invoices.

Statements should be sent by email and excel format is preferable. It is also recommended that the email subject include the name of the organisation sending the statement.
Example 4 – future invoices Where invoices are raised relating solely to future periods and are included on receivables statements, they should be clearly marked as relating to a future period. This is because the receiving organisation (the provider) should be reflecting the fact that the invoice has been physically sent, even though the goods/services have not been delivered in the current financial period. Wherever possible, it should be made clear that the provider will be deducting any amount relating to future invoices in the “adjustment” column to remove it from receivables, and the commissioner should do the same in the “adjustment” column to remove the item from payables.

This is the full amount on the statement received from Organisation A is shown in the notified column.

The value of the adjusted column is the amount of the invoice raised relating to the next accounting period.

The amount in the total column reflects the amount relating to the current accounting period and will agree to the ledger figure.

The adjustment above would be reflected in Organisation A’s receivable statement.

What should be included in the notified, accrued, adjustment and disputed columns?

The AoB process is exactly that, it is a comparison of what the receiver records is outstanding compared to what the payable organisation recognises as a balance outstanding. It does NOT mean an agreement to pay an invoice. If an invoice is not adjusted it does not mean it is agreed to be paid. It simply means the payable organisation recognises that value as an amount owed to the receivable organisation in payable organisations accounts. Commissioning organisations should ensure that their individual responses to Provider statements do not contradict this position.

Considering the statement above the notified, accrual, adjusted and disputed columns should be used as follows:

NOTIFIED – this is the amount notified by the Provider as the amount due to them on the receivables statement i.e. invoices raised up to the cut-off date within the relevant AoB timetable. This is the balance notified. In all cases where a statement has been received from an organisation, the figure on that statement should be input in the notified column prior to any adjustments. Any invoices in advance should be marked as such on the statement as they will need to be adjusted out via the adjusted column.
ACCRUED – This should be the value of accruals per the organisations ledger. At Q3, the final submission may not agree to your ledger due to having agreed accruals since the ledger close date.

DISPUTED – only items in formal dispute should be included here. An item is deemed in formal dispute if one party notifies the other party in writing that the invoice is in formal dispute. Proof should be available of this formal notification of dispute. Organisations should only use this column if they are actively addressing the resolution of the disputed items. Invoices not yet approved for payment should not be recorded as disputed unless a formal dispute has taken place. Only the balance in dispute should be included here (as a negative value reducing the overall payable recognised), this could be a partial value of an invoice.

ADJUSTED – all other adjustments to the balances should be included here.

PLEASE NOTE – the sum of NOTIFIED plus ACCRUED less FORMAL DISPUTE minus/plus ADJUSTMENT should equal the balance the organisation considers is receivable/payable against that counterparty and is the balance recorded in the ledger and accounts.

For example, a Trust has raised an invoice totalling £100 and notifies this to the CCG through the receivables statement. The CCG is validating the invoice but believes that there is only £90 as the balance payable against the invoice and has £90 recorded in the ledger though the invoices are subject to final approval. As part of the statement process, the CCG should contact the Trust to advise of the £10 difference. If the Trust agrees with the CCG, they should record the £100 notified in the ‘notified’ column and the -£10 adjustment in the ‘adjustment’ column (per section 5.8).

The entries for the CCG (and the Trust if they agree with the CCG) should be as follows:

Notified £100; Accrued; Adjusted -£10; Dispute 0; Balance £90

The ledger balance for this provider in the CCG ledger is therefore £90.

If the Trust does not agree with the CCG, there will be a mismatch.
Annex 4 - Role of the Department of Health & Social Care and other bodies

The role of the Department of Health & Social Care

1. The Department of Health & Social Care plays a dual role within the AoB exercise. The Department exists as both an agreement body within the DHSC Accounting Group, and as the parent entity, is also responsible coordinating the AoB exercise and for the elimination and consolidation of the agreed transactions and balances in to the Department of Health & Social care Annual Report and Accounts.

Department of Health & Social Care as an Agreement Body

2. As well as being a funding body, the Department of Health & Social Care undertakes significant trading with other consolidating bodies. Therefore, the Department of Health & Social Care needs to participate in the agreement exercises to agree its own balances. The volume of intra-group transactions undertaken by the Department means that the Department needs to seek agreement with over 400 of the consolidating entities within the accounting boundary.

3. The DHSC Agreement of Balances team deal solely with the agreement of transactions and balances with counterparties. The team does not have any control over the payment or approval of invoices, and as such, queries around payment should be addressed to the relevant contact in DHSC (i.e. the person who raised or was in receipt of the invoice). DHSC accounts payable and accounts receivable contacts are specified separately in the AoB contact lists.

Department of Health & Social Care as a Parent organisation

4. As the parent (lead) organisation in an accounting group, the Department of Health & Social Care has a responsibility to produce a consolidated account, with accurate eliminations between consolidating entities. To enable the Department to prepare the eliminations, the Department has responsibility for:

- **Setting and communicating the timetable** – including dates for issuing invoices and statements, balance agreements and submission dates
- **Issuing mismatch reports** – detailing variances between group bodies
- **Setting tolerances for balance agreements** – depending on the overall level of mismatch
- **Providing guidance** – on how the exercises should work, and on specific accounting treatments.
Other Organisations performing a dual role

5. NHS Improvement and NHS England have a data collection role that allows the production of a consolidated account. As part of the consolidation NHS Improvement and NHS England complete intra-group eliminations. Consolidated sets of accounting data are then provided to DHSC for inclusion in the group consolidation.

6. As part of this, national bodies also require AoB data, which is submitted to them in advance for their local review. This allows each national body to resolve any significant data issues prior to the DHSC collection deadline.

7. National Bodies also have a role in producing the AoB timetable, and in issuing guidance to assist in the completion of the exercise.
Annex 5 - NHSE coding for Hosted Services

Please refer to Annex 5 NHSE Coding for Hosted Services, separately circulated.
NHS England Appendices

Appendix 1: Local Office to commissioned service matrix

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
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</table>

Notes:

1. As previously, org code Y56 (NHS England - London Regional Office) should be used for both Y56 and Q71 (NHS England - London Local Office).

2. NHS England - Hampshire, Isle of Wight and Thames Valley Local Office (Q87) commissions Primary Care and Secondary Dental and Public Health which was previously commissioned by NHS England - Wessex Local Office (Q70). Q87 was formed on 1 April 2018 and is part of NHS England South East Region (Y59).

3. NHS England - South West South Local Office (Q85) commissions Primary Care and Secondary Dental and Public Health which was previously commissioned by NHS
England - South West Local Office (Q80). Q85 was formed on 1 April 2018 and is part of NHS England South West Region (Y58).

4. NHS England - Kent, Surrey and Sussex Local Office (Q88) commission Primary Care and Secondary Dental, Public Health and Health & Justice which was previously commissioned by NHS England - South East Local Office (Q81). Q88 was formed on 1 April 2018 and is part of NHS England South East Region (Y59).

5. NHS England - South West North Local Office (Q86) commissions Primary Care and Secondary Dental, Public Health, Health & Justice and Armed Forces which was previously commissioned by NHS England - South Central Local Office (Q82). Q86 was formed on 1 April 2018 and is part of NHS England South West Region (Y58).
Appendix 2: Specialised services provider to Commissioning Hub matrix

Appendix 3: List of Local Office, Regional Team, Commissioning Hub and CSU codes (including the NHS England core team)

<table>
<thead>
<tr>
<th>ICP entity</th>
<th>Name</th>
<th>Profile Class/Description</th>
<th>Additional information</th>
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</table>

Notes:

1. As previously stated, NHS England - London Regional Office (Y56), includes Q71.

2. On 1 April 2018, NHS England - South Regional Office (Y57) split into NHS England - South West Regional Office (Y58) and NHS England - South East Regional Office (Y59).

3. These four new Local Offices commenced on 1 April 2018. See Appendix 1 for details of the services they commission directly. (NB NHS England - South West Local Office (Q80), NHS England - South Central Local Office (Q82), NHS England - Wessex Local Office (Q70) and NHS England - South East Local Office (Q81) all ceased on 31 March 2018.).
Appendix 4: Gross/Net Accounting and Hosted Services Guidance

Revenue Recognition, Gross/Net Accounting and Hosted Services

The overarching principle is that transactions should be accounted for in accordance with Accounting Standards, with all treatments having been agreed by all parties.

Before considering whether gross or net accounting is appropriate bodies must first consider IFRS 15 Revenue from Contracts with Customers. The Standard describes revenue as:

“The increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreasing liabilities that result in an increase in equity, other than those relating to contributions from equity participants”.

An entity shall apply the Standard to all contracts with customers, except for the following:-

a) Lease Contracts within the scope of IAS 17 (IFRS 16 from April 2020)

b) Insurance Contracts within the scope of IFRS 4

c) Financial Instruments and other contractual rights and obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; and

d) Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers

The core principals of IFRS 15 follow a five step process for revenue recognition:-

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation
IFRS 15 states that “an entity will recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services”.

Principal verses Agent consideration

IFRS 15 includes more detail compared to the previous Standard on Principal vs Agent and goes on to state “When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.”

Once revenue recognition has been considered, organisations should then consider the appropriateness of gross or net accounting.

Organisations are reminded that the DHSC Group Accounting Manual 2018-19 states that: "The overarching principle is that the transactions must be accounted for in accordance with the Accounting Standards, with all treatments having been agreed by both parties. Generally, this means revenue, income and expenditure must be recorded gross unless one party is acting solely as an agent". (Section 4.17)

An entity is a principal if it controls the specified good or service before that good or service us transferred to the customer.

An organisation is an agent if the organisation's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party.

For example, in the case if a staff recharge, if the member of staff concerned is off sick for a period of time, if the employing organisation would need to supply someone else to the receiving organisation, then the risks of employment have not been transferred. The employing organisation should use gross accounting. Alternatively, for example, if no substitute employee would be provided and the receiving organisation would continue to pay, this may indicate that the employing organisation has transferred the risk and should use net accounting. This is one factor amongst many and each circumstance should be assessed individually and agreed between both parties but, in line with the principles of IFRS.
IFRS 15 further sets out the following criteria that, individually or in a combination, indicate that an entity is acting as a principal. They are as follows:

"The entity has the primary responsibility for primary responsibility for providing the goods or services to customer or for fulfilling the order".

The entity has an inventory risk before or after the customer, during the shipping or on return.

The entity has latitude in establishing prices either directly or indirectly.

If ALL parties involved in the arrangement agree net accounting is appropriate, and is in accordance with accounting standards, then the net accounting may be used.

With regards to sending of statements where net accounting is appropriate, in the case of staff recharges, the Receivable Organisation will send a receivables statement (where applicable) to the Payable Organisation (but not an income statement as this is classed as a non-income item) (see example 2 in the attachment below). The "substance" of the transaction in example 2 is payroll which wouldn’t ordinarily from part of Agreement of Balances or attract an Analysis 2 code.

In the case of Hosted Services (example 3 in the attachment below), the Receivable Organisation will send a receivables statement (where applicable) to the Payable Organisation (but not an income statement as this is classed as a non-income item). However, in the case of example 3, the "substance" of the transaction is expenditure with Foundation Trusts (FTs). FT income and expenditure does form part of the Agreement of Balances and attracts and Analysis 2 code. The FT will send income statements, but as it is also a party to the hosted service arrangement; the FT will send income statements correctly to all principals included in the agreement (for their share of the agreement) rather than to the agent alone.

It is recognised that, within NHS England, there are instances where net accounting is appropriate and is agreed. Annex 5 of the Agreement of Balances guidance sets out where NHS England has hosted services which are being accounted for on a net basis. This list is updated prior to each Agreement of Balances exercise.

At all times it is vital that the parties involved assess each individual situation in line with the principles of IFRS 15 and determine whether gross or net accounting is appropriate. Once the accounting treatment has been determined, and all parties agree (including any Foundation Trust/NHS Trust), the agreement should be documented and auditable. All parties should follow the appropriate coding conventions (see examples below) to enable consolidation to take place and minimise the level of gross mismatches in the Agreement of Balances Income and Expenditure exercise.
### Example 1 - Salary recharge accounted for Gross (default position)

CCG3 pays £20 for a member of staff and then raises an invoice to CCG4 for a salary recharge of £10

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<tbody>
<tr>
<td>Payroll entry in originating CCG</td>
<td>DR</td>
<td>CCG3</td>
<td>Salaries and wages (various - feeder file entry from payroll feeder)</td>
<td>I&amp;E</td>
<td>Default</td>
<td>20</td>
<td>this is the original salary payment by CCG3</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG3</td>
<td>Cash</td>
<td>SoFP</td>
<td>Default</td>
<td>-20</td>
<td>this is the original salary payment by CCG3</td>
</tr>
<tr>
<td>CCG raises recharge to CCG4</td>
<td>DR</td>
<td>CCG3</td>
<td>18161038 - Trade receivables NHSE-CCG accruals</td>
<td>SoFP</td>
<td>CCG4</td>
<td>10</td>
<td>final entry after recoding the system code</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG3</td>
<td>44811094 - Gross recoveries in respect of employee benefits - salaries and wages</td>
<td>I&amp;E</td>
<td>CCG4</td>
<td>-7</td>
<td>Maps to income as transaction is to be shown gross</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG3</td>
<td>44811095 - Gross recoveries in respect of employee benefits - social security</td>
<td>I&amp;E</td>
<td>CCG4</td>
<td>-2</td>
<td>Maps to income as transaction is to be shown gross</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG3</td>
<td>44811096 - Gross recoveries in respect</td>
<td>I&amp;E</td>
<td>CCG4</td>
<td>-1</td>
<td>Maps to income as transaction is to be shown gross</td>
</tr>
<tr>
<td>Transaction</td>
<td>DR/CR</td>
<td>Entity</td>
<td>Subjective</td>
<td>I&amp;E Statement of Financial Position (SoFP)</td>
<td>Analysis 2</td>
<td>Amount</td>
<td>Comments</td>
</tr>
<tr>
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<td>----------</td>
</tr>
<tr>
<td>Recognition of the charge from CCG3</td>
<td>DR</td>
<td>CCG4</td>
<td>of employee benefits - Employer Cont</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>DR</td>
<td>CCG4</td>
<td>51111001 - Seconded staff - Basic salary</td>
<td>I&amp;E</td>
<td>CCG3</td>
<td>7</td>
<td>Maps to other i.e. these are not employees of the CCG4</td>
</tr>
<tr>
<td></td>
<td>DR</td>
<td>CCG4</td>
<td>51112001 - Seconded UK Staff - Employers Social Security</td>
<td>I&amp;E</td>
<td>CCG3</td>
<td>2</td>
<td>Maps to other i.e. these are not employees of the CCG4</td>
</tr>
<tr>
<td></td>
<td>DR</td>
<td>CCG4</td>
<td>51113001 - Seconded UK staff - Employers pension costs</td>
<td>I&amp;E</td>
<td>CCG3</td>
<td>1</td>
<td>Maps to other i.e. these are not employees of the CCG4</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG4</td>
<td>26172017 - Trade payables NHSE-CCG accruals</td>
<td>SoFP</td>
<td>CCG3</td>
<td>-10</td>
<td>final entry after recoding the system code</td>
</tr>
</tbody>
</table>

CCG4 should receive a receivable statement from CCG3 of £10

CCG4 should receive an income statement from CCG3 of £10

Any mismatches will be reported on inter mismatch reports as A2 codes are used
Example 2 - Salary recharge accounted for Net

CCG1 pays £10 for a member of staff and then raises an invoice for a salary recharge of £5

<table>
<thead>
<tr>
<th>Transaction</th>
<th>DR/CR</th>
<th>Entity</th>
<th>Subjective</th>
<th>I&amp;E Statement of Financial Position (SoFP)</th>
<th>Analysis 2</th>
<th>Amount</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll entry in originating CCG</td>
<td>DR</td>
<td>CCG1</td>
<td>Salaries and wages (various - feeder file entry from payroll feeder)</td>
<td>I&amp;E</td>
<td>Default</td>
<td>10</td>
<td>this is the original salary payment by CCG1</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG1</td>
<td>Cash</td>
<td>SoFP</td>
<td>Default</td>
<td>-10</td>
<td>this is the original salary payment by CCG1</td>
</tr>
<tr>
<td>CCG1 raises recharge to CCG2</td>
<td>DR</td>
<td>CCG1</td>
<td>18161038 - Trade receivables NHSE-CCG accruals</td>
<td>SoFP</td>
<td>CCG2</td>
<td>5</td>
<td>final entry after recoding the system code</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG1</td>
<td>51111091 - Permanent UK staff - Basic salary -recharges to-from other NHS</td>
<td>I&amp;E</td>
<td>Default</td>
<td>-3</td>
<td>Maps to pay expenditure as transaction is to be shown net</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG1</td>
<td>51112091 - Permanent UK staff - Social security - recharges to-from other NHS</td>
<td>I&amp;E</td>
<td>Default</td>
<td>-1</td>
<td>Maps to pay expenditure as transaction is to be shown net</td>
</tr>
<tr>
<td>Transaction</td>
<td>DR/CR</td>
<td>Entity</td>
<td>Subjective</td>
<td>I&amp;E Statement of Financial Position (SoFP)</td>
<td>Analysis 2</td>
<td>Amount</td>
<td>Comments</td>
</tr>
<tr>
<td>-------------</td>
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</tr>
<tr>
<td>CR</td>
<td>CCG1</td>
<td></td>
<td>51113091 - Permanent UK staff - Pension Costs - recharges to-from other NHS</td>
<td>I&amp;E</td>
<td>Default</td>
<td>-1</td>
<td>Maps to pay expenditure as transaction is to be shown net</td>
</tr>
</tbody>
</table>

Recognition of charge in CCG2

| DR          | CCG2  |        | 51111091 - Permanent UK staff - Basic salary - recharges to-from other NHS | I&E | Default | 3 | Maps to pay i.e. substance is employee of CCG1 |
| DR          | CCG2  |        | 51112091 - Permanent UK staff - Social security - recharges to-from other NHS | I&E | Default | 1 | Maps to pay i.e. substance is employee of CCG1 |
| DR          | CCG2  |        | 51113091 - Permanent UK staff - Pension Costs - recharges to-from other NHS | I&E | Default | 1 | Maps to pay i.e. substance is employee of CCG1 |
| CR          | CCG2  |        | 26172017 - Trade payables NHSE-CCG accruals | SoFP | CCG1 | -5 | final entry after recoding the system code |

CCG2 should receive a receivable statement from CCG1 of £5
Mismatches will be excluded from inter I & E Mismatch reports as A2 codes are not used in I & E. Mismatches will be included on SoFP inter mismatch reports as A2 codes are used.
Example 3 - Hosted service accounted for net

CCG1 is the agent for a hosted arrangement for the provision of nursing assessments to CCG2 and CCG3. An FT invoices for the service to CCG but is party to the net arrangement with CCG2 and CCG3

<table>
<thead>
<tr>
<th>Transaction</th>
<th>DR/CR</th>
<th>Entity</th>
<th>Subjective</th>
<th>I&amp;E Statement of Financial Position (SoFP)</th>
<th>Analysis 2</th>
<th>Amount</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipt of FT invoice by CCG1</td>
<td>DR</td>
<td>CCG1</td>
<td>Expenditure with FT (various e.g. 52161050)</td>
<td>I&amp;E</td>
<td>FT1</td>
<td>90</td>
<td>this is the original invoice payment by CCG1</td>
</tr>
<tr>
<td>CR</td>
<td>CCG1</td>
<td>Cash OR wherever the APTB or non PO is recoded depending on status of inv</td>
<td>SoFP</td>
<td>FT1</td>
<td>-90</td>
<td>this is the original invoice payment by CCG1</td>
<td></td>
</tr>
<tr>
<td>Recharge raised by CCG1 to CCG2 and CCG3</td>
<td>DR</td>
<td>CCG1</td>
<td>18161038 - Trade receivables NHSE-CCG accruals</td>
<td>SoFP</td>
<td>CCG2</td>
<td>30</td>
<td>final entry after recoding the system code</td>
</tr>
<tr>
<td>DR</td>
<td>CCG1</td>
<td>18161038 - Trade receivables NHSE-CCG accruals</td>
<td>SoFP</td>
<td>CCG3</td>
<td>30</td>
<td>final entry after recoding the system code</td>
<td></td>
</tr>
<tr>
<td>CR</td>
<td>CCG1</td>
<td>52241009 - Purchase of goods and services - Recharge provided</td>
<td>I&amp;E</td>
<td>CCG2</td>
<td>-30</td>
<td>will net to nil, Analysis 2 code automatically generated on raising of invoice</td>
<td></td>
</tr>
<tr>
<td>CR</td>
<td>CCG1</td>
<td>52241009 - Purchase of goods and services - Recharge provided</td>
<td>I&amp;E</td>
<td>CCG3</td>
<td>-30</td>
<td>will net to nil, Analysis 2 code automatically generated on raising of invoice</td>
<td></td>
</tr>
<tr>
<td>Transaction</td>
<td>DR/CR</td>
<td>Entity</td>
<td>Subjective</td>
<td>I&amp;E Statement of Financial Position (SoFP)</td>
<td>Analysis 2</td>
<td>Amount</td>
<td>Comments</td>
</tr>
<tr>
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<td>----------------------------------------------------------------------------</td>
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<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Recode CCG2 and CCG3 share to FT</td>
<td>DR</td>
<td>CCG1</td>
<td>52241009 - Purchase of goods and services - Recharge provided</td>
<td>I&amp;E CCG2</td>
<td></td>
<td>30</td>
<td>Journal to net to nil</td>
</tr>
<tr>
<td></td>
<td>DR</td>
<td>CCG1</td>
<td>52241009 - Purchase of goods and services - Recharge provided</td>
<td>I&amp;E CCG3</td>
<td></td>
<td>30</td>
<td>Journal to net to nil</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG1</td>
<td>Expenditure with FT (various eg 52161050)</td>
<td>I&amp;E FT1</td>
<td>-60</td>
<td></td>
<td>to remove FT expenditure to show transaction net</td>
</tr>
<tr>
<td>Recognition of charge in CCG2 account</td>
<td>DR</td>
<td>CCG2</td>
<td>52241008 - Purchase of goods and services - Recharge received</td>
<td>I&amp;E CCG1</td>
<td></td>
<td>30</td>
<td>will net to nil, Analysis 2 code automatically generated on payment of invoice</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG2</td>
<td>26172017 - Trade payables NHSE-CCG accruals</td>
<td>SoFP CCG1</td>
<td>-30</td>
<td></td>
<td>final entry after recoding the system code</td>
</tr>
<tr>
<td>Recode to reflect transaction with FT</td>
<td>DR</td>
<td>CCG2</td>
<td>Expenditure with FT (various eg 52161050)</td>
<td>I&amp;E FT1</td>
<td>30</td>
<td></td>
<td>to reflect the substance of expenditure with FT</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG2</td>
<td>52241008 - Purchase of goods and services - Recharge received</td>
<td>I&amp;E CCG1</td>
<td>-30</td>
<td></td>
<td>Journal to net to nil</td>
</tr>
<tr>
<td>Recognition of charge in</td>
<td>DR</td>
<td>CCG3</td>
<td>52241008 - Purchase of goods and services - Recharge received</td>
<td>I&amp;E CCG1</td>
<td></td>
<td>30</td>
<td>will net to nil, Analysis 2 code automatically generated on payment of invoice</td>
</tr>
<tr>
<td>Transaction</td>
<td>DR/CR</td>
<td>Entity</td>
<td>Subjective</td>
<td>I&amp;E Statement of Financial Position (SoFP)</td>
<td>Analysis 2</td>
<td>Amount</td>
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</tr>
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<td>------------</td>
<td>----------------------------------------</td>
<td>-----------</td>
<td>--------</td>
<td>----------</td>
</tr>
<tr>
<td>CCG2 account</td>
<td>CR</td>
<td>CCG3</td>
<td>26172017 - Trade payables NHSE-CCG accruals</td>
<td>SoFP</td>
<td>CCG1</td>
<td>-30</td>
<td>final entry after recoding the system code</td>
</tr>
<tr>
<td>Recode to reflect transaction with FT</td>
<td>DR</td>
<td>CCG3</td>
<td>Expenditure with FT (various e.g. 52161050)</td>
<td>I&amp;E</td>
<td>FT1</td>
<td>30</td>
<td>to reflect the substance of expenditure with FT</td>
</tr>
<tr>
<td></td>
<td>CR</td>
<td>CCG3</td>
<td>52241008 - Purchase of goods and services - Recharge received</td>
<td>I&amp;E</td>
<td>CCG1</td>
<td>-30</td>
<td>Journal to net to nil</td>
</tr>
</tbody>
</table>

Notes:

The same transactions would be accounted for by CCG3 as those in CCG2 they have charged to the FT1’s analysis 2 code.

CCG1 will receive a receivables statement from FT1 for £90

CCG2 will receive a receivables statement from CCG1 for £30

CCG3 will receive a receivables statement from CCG1 for £30

The items highlighted in orange assume the default A2 codes remain on the transaction when raising and paying the invoice. The yellow highlighted items are therefore required to reverse these entries and the balance then nets to nil.
Parties could (in theory) change the system default codes (orange entries) at source from the default code to (as is the example 3), to the FT A2 codes to avoid transacting the yellow journal entries.

The "substance" of the transaction MUST have the overall impact of (in the case of example 3) 30 expenditure (and coded to the FT A2 code) in CCG1, CCG2 and CCG3. This will then result in successful consolidation.

The recharge received and provided subjective are used to complete consolidation. If the entries highlighted in orange and yellow do not eliminate then the CCG accounts and Group accounts will be incorrect.

Although the transactions will be included on the inter mismatch reports for I & E they should net to a nil balance if the coding above is followed. Mismatches will be included on SoFP inter mismatch reports as A2 codes are used.