

Agreement of Balances month 9 update

Introduction and Purpose

The Agreement of Balances (AoB) exercise is key in ensuring that the DH group accounts present a 'true and fair view' and are not materially misstated. Additionally, it is also important in demonstrating good financial management across the organisations which make up the group.

The purpose of this document is to highlight the key changes at month 9, and highlight the key issues that we found at month 6, with a view to reducing the number of issues in future agreement exercises.

This document should be read in conjunction with the Agreement of Balances guidance which can be found on FINMAN.

Changes

Following consultation with the national bodies and representatives from local bodies, the Financial Accounts Steering Group (FASG) has agreed the following:

- The de minimis for Rec & Pay agreement only is increased from £50k to £100k. Assuming the results from the month 9 exercise are satisfactory, this de minimis will continue to be used in the month 12 exercise.
- The de minimis for sending out statements has been increased to £2.5k for Rec & Pay and £10k for I & E. This is aimed primarily at those organisations who compile and send out their statements manually, and as such this does not preclude organisations from sending out statements for all transactions. There is a nil de minimis threshold for issuing accruals statements at year-end as this is an important means of counterparty communication regarding certain types of accruals; for example those associated with partially completed spells.

Updates

Accruals

Following on from the month 6 Agreement of Balances (AoB) exercise, it has come to light that there is some confusion around the recording of accruals on schedules.

At month 9, accruals must be entered on the data collection form in the accruals column and organisations should reconcile the information to their ledger system. Although there is no formal requirement for organisations to send out accruals statements or agree/discuss accruals at month 9, it is important that they are as accurate as possible as accruals mismatches formed more than half of all mismatches at month 6. In addition, even though there is no requirement for upfront agreement of accruals, there is still a requirement to resolve accruals related mismatches at the mismatch report stage. We therefore recognise that at the initial submission at month 9, mismatches will occur. But it is essential that organisations then use the mismatch information to discuss with counterparties to bring accruals practices in line, by the time of month 9 restatement to facilitate matching at month 12.

It is essential that accruals are recorded as they form part of the accounts figures and therefore along with the other information, represent the balances in the accounts which must be eliminated on consolidation.

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

The Agreement of Balances process is exactly that, it is a comparison of what the receiver records as 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 the payable organisations accounts. Commissioning organisations should ensure that their individual responses to Provider statements do not contradict this position.

Considering the statement above (and using a Provider / Commissioner counterparty as an example) the notified, accrual, adjusted and disputed columns should be used as follows at month 9:

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 31st December. 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 – For month 9 there is no requirement to issue accruals statements however accruals must be recorded as noted on the previous page.

DISPUTED – only items in formal dispute should be included here. An item is deemed in formal dispute if one party notifies the other party that the invoice is in formal dispute. Proof should be available of this formal notification of dispute. Organisations are expected to be actively addressing entries in this column to resolve disputes. 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 at month 9 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. The entries should be as follows:

Notified £100

Accrued 0

Adjusted -£10

Dispute 0

Balance £90

The ledger balance for this provider is therefore £90.

Whole of Government Accounts (WGA)

Organisations will be required to record data relating to WGA bodies (i.e. public sector bodies, for example Local Authorities, outside the DH group but consolidated into WGA) for month 9. Further information is included at annex 2 to the guidance.

Items to be included in Agreement of Balances

The AoB exercise should include invoices as per the ledger. Where these include invoices in advance of goods and services having been received/ delivered, they should be marked as such on the statement, and reversed out via the adjustment column by both parties. This will ensure that both receivables and payables organisations are reporting the same position.

Legacy (balances relating to former commissioning organisations which demised on 1 April 2013)

NHS England will send out a separate statement for invoices (receivable to NHS England) relating to legacy transactions (i.e. those recorded on their X25 ledger). The statement will be generated locally and **not** by NHS Shared Business Services. This should be agreed and returned to the X24 NHS England receivable e-mail address by the deadline.

There will be no income statement issued for X25 as all transactions relate to prior year activity. This should be included on the CBA033 NHS England Core row of the collection form.

Please note; organisations (other than NHS England) should only record legacy payable balances in this way. A full and final settlement has now been made by NHS England to NHS Providers

NHS Property Services

NHS Property Services is taking part in the month 9 and month 12 exercises. Please ensure that you respond to any statements received.

NHS Litigation Authority

NHS Litigation Authority experienced a high level of mismatches at month 6. Full details of how transactions relating to NHS LA can be found in the AoB guidance.

Gross/Net Accounting

Organisations are reminded that the default position for all transactions is to be treated gross. Net accounting is only appropriate where one organisation is acting as an agent to the transaction and has transferred the risks and rewards. The lack of 'profit' in the arrangement does not automatically mean net accounting is used. Net accounting needs to be agreed by both parties.

An organisation is acting as an agent if it has transferred the risk and rewards. For example, in the case of 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 organisations has transferred the risks 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, the default is for all transactions to be treated gross.

Similarly, the default for hosted services is for them to be treated gross i.e. the organisation hosting the network would account for its income (from the DH for example), and for the expenditure relating to the payments it makes to other organisations. If ALL parties involved in the arrangement agree net accounting is appropriate then net accounting may be used. In this scenario, organisations would record their receipts as being directly from the DH. However, for this to work there should be the joint agreement of ALL parties. The default is for transactions to be treated gross. Please see the refreshed NHS England list on FINMAN.

A new summary which illustrates how to reflect gross and net accounting in the collection forms follows at the end of this update document.

Future Changes to the I & E Agreement Process

In previous years, the AoB mismatch has been unacceptably high until very late in the accounts process and this has been a cause for concern, especially as achieving unqualified pre-recess accounts is a key government target.

We have been looking at ways to provide earlier resolution of mismatches, and following significant work with the national bodies, and representation from local bodies, it has been agreed that there will be a pre-draft accounts submission I & E agreement exercise at month 12 from 2015/16. There will be a high de minimis agreement threshold to ensure the pre-draft accounts workload remains manageable, with the current intention being that the de minimis used for this additional exercise will be much higher than that used at month 9. Our analysis shows that this will still ensure that a large proportion of the overall mismatch can be resolved earlier in the process, reducing the workload at the mismatch report stage. The increase in the payable / receivable agreement threshold (which we anticipate will continue into 2015-16 subject to satisfactory results throughout 2014-15) will also offset a significant proportion of the additional pre-draft accounts workload.

Although this is not going to be mandated until 2015/16, we would recommend as good practice, that as much agreement as possible is undertaken in 2014/15.

Reflecting 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.

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

¹ In an FTC form for NHS foundation trusts, non-WGA activity is recorded in the 'external to government' column. For NHS Trusts completing an FMA form this column does not appear (with the total column instead being free-entry), thus an NHS Trust will exclude the number from the WGA columns in order to mean that it is external to government.

² In an FTC form for NHS foundation trust, the employee benefits note has additional lines to record staff recharge income being netted off expenditure. For NHS Trusts completing an FMA form, there is no line for staff recharge net income. NHS Trusts therefore need to directly net this off the staff cost.

2) Staff permanently employed by NHS Trust B. Foundation Trust A is being recharged by NHS Trust B.

Type	(2a) GROSS FOR THE EMPLOYER (i.e. risks and rewards remain with NHS Trust B – NHS Trust B is the Principal)	(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)
Foundation Trust A: Income	n/a	n/a
Foundation Trust A: Expenditure	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.	Record staff costs as 'Other' against Salaries and Wages. If net then all transactions would be classified as 'external to government' ¹
Impact	NHS Foundation Trust A shows staff costs paid in respect of the individual, recorded as a WGA transaction.	NHS Foundation Trust A shows staff costs paid in respect of the individual, recorded as an external transaction.
Equivalent for NHS Trust B	<p>NHS Trust B will follow the same approach as Foundation Trust A did in scenario (1a) above:</p> <p>Record income in income note (in WGA column for 'business with foundation trusts')</p> <p>Record total staff costs as permanently employed against salaries and wages as 'external to government' (which, per footnote 1, means excluding from the WGA columns in an NHS Trust FMA form).</p>	<p>NHS Trust B will follow the same approach as Foundation Trust A did in scenario (2a) above:</p> <p>Record total staff costs as permanently employed. Record in 'business external to government'.¹ with no WGA codes attached to transaction.</p> <p>Record income received from WGA body in respect of recharge in the employee benefits note. (See footnote 2: an NHS Trust will net this off directly in the FMA form in the employee benefits note. An FT in this position would use the 'recoveries netted off expenditure' row in the employee benefits note). It would be classified as 'external to government'.</p> <p>Overall staff costs would show nil assuming the recharge amount was for full staff cost amount.</p>
Transaction elimination for DH consolidation	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.	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.