

## Agreement of Balances month 12 update

The Agreement of Balances 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.

### **1) 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 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 in month 12:

**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 20<sup>th</sup> March. This is the balance notified.

**ACCRUED** – for month 12 this should be the balance on the accrual's statement if issued (mandatory over £500, balances below this level may be issued if the receivable organisation chooses to do so). Both parties should include this value of the statement if issued. If an accruals statement isn't issued this balance will be NIL.

**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, this could be a partial value of an invoice

**ADJUSTED** – all other adjustments to the balances should be included here. This will include accruals if no statement is issued.

**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 12 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.

## 2) Future period invoices

Future period invoices (i.e. relating to 2014/15) should not be included on statements particularly in month 12. For the Q4 collection, only 2013/14 invoices should be included on statements.

## 3) Balances with NHS England entities.

In 2014/15 it has been confirmed that separate statements will be sent to the individual sub entities within NHS England eg. Area Teams, CSUs. However, it has been recognised that in 2013/14 providers haven't (in every case) had the ability to record balances against each of these sub entities and issue individual statements.

For month 12 NHS England will continue the process that has been established at month 9 but request that providers adhere to this in month 12 in EVERY case. This is as follows;

- One statement to be issued for the whole of the NHS England statutory entity (ie. Area Teams, Regional Teams, CSUs and the central team) **in total** but for those statements to identify which sub entity each invoice is related to. Please note, CCGS should continue to receive a separate statement addressed to them. This should be repeated for the accruals statement.
- Providers should list these balances on their data collection form against these sub entities. This has been the cause of many mismatches in month 7 and month 9. All Area Teams, Regional teams and CSUs are listed separately. The NHS England code CBA033 should only be used where the balance is with the central team or on the rare occurrence that the sub

- entities are not known. Recording all the balance against CBA033 is likely to generate mismatches.
- Legacy – to be treated separately, please see item 6 below

An example of how a statement may look is as follows:

Invoice No.	Invoice Date	Invoice Amt Outstanding	Area Team/Region/CSU
A10001	01/10/1013	£54.00	Q44
A10002	03/11/2013	£10,051.00	0AV
A10003	04/12/2013	£1,000,500.53	Y56

It is vital that this process is followed for month 12. Month 12 also includes an accruals statement process. The accruals statement window is extremely tight and statements issued without the sub entity details included will be at high risk of being adjusted and a mismatch reported.

If a payables statement is received in error by an Area Team, Regional Office or CSU they should forward it to the Central Team.

#### 4) Maternity pathway prepayment/Partially Completed Spells

In 2013/14 many commissioners will be “pre-paying” monies to providers for the maternity pathway. The accounting treatment has been discussed with the National Audit Office.

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.

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.

Commissioners’ and providers’ auditors will be interested in the amounts particularly if the amounts are material.

It is expected therefore that the charge for partially completed spells and the prepayment for the maternity pathway will be included on the accruals statement but an invoice SHOULDN’T be raised. The items should be separately identified, the maternity pathway being a credit.

For further information on the maternity pathway payment, please see the FAQ point on the FinMan website.

## 5) Contacts

Please note, contact lists have been refreshed for month 12. It is vital that these are refreshed where necessary and that timescales for updates are adhered to.

Organisations should provide both email addresses and contact telephone numbers.

All organisations are requested to use the updated lists as published on FinMan. These will be updated during week commencing 17<sup>th</sup> March 2014 under “What’s new”.

Please also note, collection forms should only be returned to the organisation’s own national body. Some CCGs, for example, are returning to the NTDA or the DH.

## 6) Legacy Balances

As communicated in December, legacy receivables and payables that were due to transfer to a CCG are now being accounted for by NHS England centrally.

For month 12, this process will continue to be managed in NHS England by the legacy team. Providers that **did not** submit a statement at month 9 should submit a separate statement for legacy-related receivables and payables and send it to [england.legacyagreementofbalances1@nhs.net](mailto:england.legacyagreementofbalances1@nhs.net). As legacy balances should not be changing, please do not submit another statement if you have already done so at month 9 unless substantive changes have occurred since your month 9 submission e.g. payments having been made against invoices. This is to avoid the risk of creating significant additional work for the legacy team at NHS England and for providers. If you are submitting a month 12 statement, please ensure you include the original PCT/SHA, the transaction date and the remaining balance. By the nature of legacy items, neither accruals nor income statements are required from any organisations– ONLY the outstanding balance of items relating to the 2012/13 financial year (or earlier). Any residual impact on income/expenditure in 2013/14 should be recorded as part of 2013/14 income and expenditure.

To ease resolution of mismatches, a separate line has been introduced within the collection form for legacy balances (separate from NHS England core). The organisation code for this is NHSEX25.

## 7) Treatment of NCAs (month 12)

For commissioners, if an NCA balance is included on a statement it should be included as either a notified amount (if on the creditors statement) or an accrual amount (if on the accruals statement) 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 organisations large balances on these lines. To enable reconciliation, a sub analysis 2 code for general NCA (FT and non FT) will be created.

For providers there will also be a general NCA line included on the collection forms.

**8) When does a liability end, if an invoice isn't included at the year-end on a statement is a subsequent amount identified still payable?**

It is expected that all amounts payable will be included on the receivables or accruals statements. However, the liability doesn't legally end if it is not included on the statement and a service has been received. However, within any NHS arbitration/mediation an "argument" would be strengthened if an amount had been included on a statement.

**9) CHP033 Community Health Partnerships**

Community Health Partnerships will now be taking part in the month 12 agreement of balances exercise. Agreement of balances contact information for this organisation will be published on FinMan alongside other DH Group contact information.

**10) Reporting of Supply Chain, FP10 Prescription Charges, Injury Benefits and NHS Litigation Authority Transactions**

The DH has been experiencing continued issues with the reporting of the following transactions. This has increased the maximum error across the group quite significantly. It is important that balances with the above bodies are classified correctly as follows:-

- **NHS Supply Chain**

Please see below list of how transactions are to be reported in respect of NHS Supply Chain Transactions:-

- Report against DOH033 (Dept. of Health) where the invoices are prefixed with the number 904 (School Fruit and Veg Scheme).
- 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 agreement of balances exercise.

- **NHS Business Services Authority**

There are still quite a high number of mismatches between organisations who are reporting balances relating to FP10's (Prescription Charges) and Injury Benefits against either DH or the NHS BSA. Any transactions relating to the above should be reported as external to government in all instances, see para's 7.10 – 7.15 of the agreement of balances guidance.

- **NHS Litigation Authority**

NHS Litigation Authority are experiencing a high number of mismatches relating to the incorrect reporting of balances.

Full details of the how transactions relating to the NHS LA are to be reported can be found in the agreement of balances guidance para 7.17 – 7.19.

## **11) Income and Expenditure at Quarter 4**

There is no requirement to agree income and expenditure at Q4, however it is deemed best practice for organisations to issue income statements wherever possible.

It is still a requirement to report I & E balances (in addition to Payables and Receivables balances) at Q4 on the National Data Collection Forms, as DH will still produce mismatch reports relating to all balances provided.

## **12) Gross/Net Accounting**

Organisations are reminded that paragraph 6.3 of the agreement of balances guidance sets out that the default is for all transactions 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.

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 organisation 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.

Paragraph 6.13 and 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.

With regards to the sending of statements where net accounting is appropriate, in the case of staff recharges, the Provider should send a receivables statement (where applicable) to the payable organisation but not an income statement as this is classed as a non-income item. In a hosted service arrangement, the receivable organisation should send a receivables statement (where applicable) to the payable organisation and an income statement to the principal parties within the hosted services arrangement (agent and principal) for their share of the arrangement.