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To:  
All Chief Executives in foundation trusts, NHS trusts, PCTs, SHAs and ALBs  
All Chief Finance Officers in foundation trusts, NHS trusts, PCTs, SHAs and ALBs

Cc:  
David Flory, Deputy NHS Chief Executive, DH  
Richard Douglas, Director General, Policy, Strategy and Finance, DH  
Stephen Hay, Chief Operating Officer, Monitor  
Alastair MacLellan, Director Group Finance, DH  
All SHA Cluster Chief Executives  
All SHA Cluster Directors of Finance

Gateway reference: 17505

4<sup>th</sup> April 2012

Dear Colleague,

### **Department of Health and Monitor - Joint Supplementary Accounting Guidance**

Following on from the Month 9 agreement of balance exercise which showed significant differences on both receivables and payables, and income and expenditure, we have prepared some clarifying guidance (annex 1) to facilitate the year end process.

Under the Government's Alignment legislation the Department is required to consolidate the accounts of provider organisations into the Department's resource account for the first time. This means that the agreement of balances between organisations (SHAs, PCTs, Providers and ALBs) within this wider boundary is crucial to the accurate and timely completion of the Department's accounts this year. The level of differences at month 9 are such that without resolution, the impact on both local and national accounts could be significant, either through subsequent restatement of post draft accounts, that could result in movements in reported financial performance, or at national level, as regards audit assurance of the DH consolidated account. The additional information that is reported under the wider group consolidation due to Alignment legislation, has highlighted intra NHS balances to a degree not seen before.

The purpose of this guidance is to clarify specific areas where it has been identified that different interpretation by organisations may have contributed to the differences seen at Month 9. The clarifying guidance should therefore help to minimise the differences at the year end.

The guidance also highlights that there will be a similar process at the year end where SHAs will facilitate the process for the agreement of balance exercise where remaining differences exist, other than where balances are between two foundation trusts when Monitor will facilitate the process.

As with the previous exercise the SHAs role is clearly set out in the guidance and they may not instruct FTs to change their financial position.

SHAs will be running local events and initiatives to ensure organisations are fully compliant with this guidance. PCTs and NHS trusts will fully participate, and FTs are also encouraged by Monitor to participate in the events and any other local initiatives established by SHAs to manage and resolve intra NHS differences.

If you have any queries about the attached joint guidance, FTs should direct them to Ian Ratcliffe ([ian.ratcliffe@monitor-nhsft.gov.uk](mailto:ian.ratcliffe@monitor-nhsft.gov.uk)), other NHS bodies should direct them to Colin Forsyth ([colin.forsyth@dh.gsi.gov.uk](mailto:colin.forsyth@dh.gsi.gov.uk)), and for ALBs, to Maddie Porter ([maddeline.porter@dh.gsi.gov.uk](mailto:maddeline.porter@dh.gsi.gov.uk)).

Given the increased complexity and scope of the Agreement of Balances exercise, we hope that this guidance can help facilitate a smoother year end process, and thank you for your continued commitment to this project

Yours sincerely,



Janet Perry  
NHS Chief Financial Controller, DH

Miranda Carter  
Assessment Director, Monitor

## **Annex 1**

### **Agreement of Balances DH and Monitor Supplementary Guidance 2011/12**

#### **1. Introduction**

The 2011/12 Q3 Agreement of Balances (AoB) exercise identified significant differences on both Receivables / Payables and Income / Expenditure between NHS bodies.

The levels of differences are such that without resolution, the impact on both local and national accounts could be significant, either through subsequent restatement of balances post draft accounts that could result in movements in reported financial performance, or at national level as regards audit assurance of the DH consolidated account.

The additional information that is reported under the wider group consolidation due to Alignment legislation has highlighted intra NHS balances to a degree not seen before.

Organisations will want to ensure that balances on both Receivables / Payables and Income / Expenditure are agreed between organisations, and that any adjustments made by either party are fully justifiable to local audit and stand up to independent scrutiny.

To support the AoB process the Department and Monitor have provided this supplementary guidance that supports existing guidance and provides some specific detail for areas where it has been identified organisations are reaching different interpretations. It must be emphasised that there is no new accounting guidance contained within this document, it just brings together all the accounting guidance that is relevant to Agreement of Balances, and clarifies some issues around process.

This guidance applies to all NHS organisations (SHAs, PCTs, foundation trusts (FTs) and NHS trusts), ALBs and to the Department.

#### **2. Further Guidance on Specific issues**

This section identifies some key areas where there have been differences in interpretation. Organisations must ensure that when they agree balances they are also agreeing accounting treatment and that differences do not arise due to misinterpretation by either party.

For each area identified below, the guidance outlines the approach that it is considered reasonable for organisations to take.

The guidance below does not completely preclude the use of the Adjustments column, however this is only to be used exceptionally and all entries must be justifiable and fully supported by detailed working papers. Organisations making amendments to intra NHS balances through the use of the adjustments column must discuss this with the counter party so that the entry can be minimised wherever possible.

## **2.1 Unvalidated / Estimated activity**

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 is shared to allow commissioners to quantify and include the same estimate within their financial position.

## **2.2 Partially Completed Spells (PCS)**

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. Costs of treatment are recognised as incurred. Income relating to those spells that are part-completed at the year end should be apportioned across the financial years 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. Disclosure of the basis of apportionment should be made in the accounting policy note.

The value of PCS forms part of the agreement of balances exercise between both NHS parties (providers and commissioners).

## **2.3 Non-contracted activity (NCA)**

Timing of year end processes precludes determining the final figure for non-contracted activity for the final quarter of the year within the agreement of balances timescale. Therefore the year-end figures have to be based on estimates which might be different to the final activity outturn for the year. Both parties to date will have had methods for estimating the volumes and prices and these methodologies may well have produced different results. Providers and purchasers, with providers taking the lead, should agree an amount to include.

However, where this is not possible then a general non-provider specific 'provision' is acceptable for commissioners and accommodated for in the FMA forms for those bodies. This 'provision' may be subject to audit scrutiny and must be reasonable and justifiable.

## **2.4 Net and Gross Accounting**

Organisations should treat all transactions as gross except where net accounting has been agreed with the other party and is in accordance with relevant accounting standards. Therefore, it is only acceptable to account net if the other party is also accounting net and it also complies with the accounting standards.

## **2.5 Deferred income**

It is not anticipated that PCTs would have expenditure which would lead to deferred income being recognised in the accounts of providers. Therefore, PCTs must work with their providers to ensure that all the PCT's provider expenditure has been utilised by the provider in the current year. PCTs will not be able to reprovide this income in 2012/13 as the drawdown for PCTs has already been set.

## **2.6 Contract penalties**

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

## **2.7 Uncertainty over estimated activity and charges for contract penalties**

Where there is uncertainty over a payment at the year-end, recognition of this by both parties, ie both parties using the same value, does not formally confirm an agreement to pay.

However if there is uncertainty the bodies should consider whether they should be showing amounts as provisions or contingencies to reflect that. We would not for example expect bodies to include debtors and creditors which are likely to be reversed out at a later date to simply agree.

## **2.8 Transforming Community Services (TCS) transfers**

A new form PCT87 / TRU87 has been included in FIMS, to capture TCS specific transactions in 2011/12, and then to ensure, via the AOB exercise, that these net to nil. The form covers both the balance sheet (at 1 April 2011 under merger accounting), and income & expenditure, and is therefore a subset of the overall AoB process. Where relevant, organisations should already have agreed opening balance sheet TCS transfers. Income & expenditure relates to the period during 2011/12 up to the date of transfer. Therefore, in all cases, information to complete PCT87 / TRU87 should be known well before year end. NHS bodies must complete and share this form with the other TCS party in advance of the formal AOB exercise.

Monitor will communicate separately with foundation trusts to provide this additional TCS reconciliation sheet in due course.

It must be noted that when agreeing balances for TCS organisations the full 12 months I&E needs to be agreed with the organisation who had taken over the services under merger accounting.

## **2.9 Issuing of Statements and Contact Details**

Organisations must ensure they issue statements as per the agreed timetable and must respond to any queries in a timely manner. Statements should include contact details.

It is important that published contact details are correct and organisations must review the FINMAN published information and inform the Department of any changes.

Organisations should ensure that they are aware of the contact details in advance of the AoB exercise.

## **3.0 Disputes**

The entry included under “disputes” must represent amounts that are FORMALLY disputed and have been notified to the counterparty as such. The ‘disputed’ column must record only the disputed element of a transaction e.g. if schedule for £550k has £5k of disputed items then the full £550k is recorded by both bodies on the in the ‘Notified & Accrued’ column, and the £5k included in the ‘Disputed’ column **by the body that disputes it**. Notification of a disputed item must give a reason why it has been disputed. Disputed items are quite separate to requests to providers to clarify individual invoice details. It is not expected that there would be entries here in respect of items over three months old; all potential disagreements should be resolved within three months of the invoice date. Entries must be supported by auditable working papers.

## **4.0 Balances with ALBs and with the Department**

### **4.1 ALB Participation**

All ALBs have been directed to participate in the Agreement of balances exercise at year end. Balances should be agreed directly with the ALBs and not DH. Please contact DH (Maddie Porter, [madeline.porter@dh.gsi.gov.uk](mailto:madeline.porter@dh.gsi.gov.uk), 0113 25 45400) with any issues of non-participation from ALBs.

## **4.2 PDC and Loans transactions**

A large number of discrepancies between NHS trusts and foundation trusts and the Department result from the incorrect treatment of PDC, PDC dividend, loans and loan interest. All PDC and Loan transactions are excluded from the Agreement of Balances process as they are funding activities and not trading activities.

## **4.3 Research Networks**

Lead organisations for research networks should account in full for the research network. Lead organisations will need to include research network balances and transactions within their own accounts and agreement of balances and transaction statements.

## **4.4 Hospital prescribing, Supplychain (Maidstone) and injury benefit balances**

Hospital prescribing, injury benefits and supply chain Maidstone transactions and balances should be agreed and recorded against the Department as they are services hosted by BSA on the Department's behalf.

## **4.5 NHS Supply Chain (Alfreton) balances**

Following a review of the agreement of balances processes, there is no longer a requirement to agree balances or transactions with NHSBSA in relation to NHS Supply Chain (Alfreton)

## **5.0 SHA Co-ordinated Events**

SHAs will be running a local event to ensure organisations are fully compliant with this guidance. PCTs and NHS trusts will participate and Monitor encourages foundation trusts to participate in these events. In addition, all NHS trusts and PCTs should ensure they fully participate, and FTs are encouraged to fully participate, in any other local initiatives established by SHAs to manage and resolve intra NHS differences.

## **6.0. Timetables and DH led exercises to resolve differences**

It is anticipated that this guidance will ensure differences are minimised. However, upon receipt of draft accounts forms, the Department will identify any remaining significant Intra NHS balances (based on the Total columns) for both Receivables/Payables and Income/Expenditure. Monitor will identify mismatches (based on the Total columns) between foundation trusts.

Where changes required during this exercise result in changes being needed to the primary statements and notes that form part of the published accounts:

- SHAs, PCTs, NHS trusts and ALBs should resubmit their FMAs and accounts on 2 May together with updated agreement of balances information.
- For foundation trusts, the primary purpose of the 2 May submission is to collect updated agreement of balances information. An FT may need to update accounts schedules to ensure internal consistency within the FTC form on 2 May. Any adjustments to the AoB resubmission that impact on the accounts should be reflected in the 31 May post-audit submission when Monitor will utilise the full FTC schedules for consolidation.

The Department and Monitor have agreed that during this final exercise:

- SHAs will be provided with the agreement of balances information for their region, including foundation trusts, and they will facilitate the process for the agreement of balances exercise where remaining differences exist;
- the SHA will encourage the foundation trust and the other party to enter dialogue to see if the difference can be agreed; in some cases the SHA may expect the other party to change their position to agree with the foundation trust;
- the SHA will not instruct a foundation trust to change its financial position, however a foundation trust may decide to do so itself;
- where differences remain the SHA will ensure that the relevant organisations record the difference in the adjusted column of the consolidation return (FTC or FIMS form), or if a formal dispute has been raised, that it is recorded in the disputed column; and
- SHAs' involvement in the financial reporting process for foundation trusts is restricted to the agreement of balances exercise

Where the partnership is between two organisations that cross SHA boundaries, the SHA of the commissioning body will be the lead SHA.

The timetable is included at Annex A.

## **7.0 Queries**

Organisations should refer all queries to their usual SHA contact or Monitor's Compliance email inbox for foundation trusts.

## Annex A Q4 2011/12 Timetable

Organisations should note the following definitions:

- **Payable organisation** - this is the organisation sending the invoice i.e. the supplier or provider. It is the payable organisation that sends the Agreement of Balances statements
- **Receivable organisation** – this is the organisation receiving the invoice i.e. the purchaser or commissioner.

Date	Detail
<b>Friday 16<sup>th</sup> March 2012</b>	<p><b>Final date for sending March dated invoices (please e-mail where possible).</b> These invoices relate to activity and services up to and including February and should include estimates for March activity and services where possible. “Payables” organisations should advise “Receivables” organisations of 2011/12 invoices expected to be sent up to 10<sup>th</sup> April.</p> <p>Please note that <b>statements are not to be sent until the 27<sup>th</sup> March 2012</b> to ensure that payments made up to and including the 23<sup>rd</sup> March 2012 can be reflected in the statements.</p>
<b>Friday 23<sup>rd</sup> March 2012 ( 5 working days before year-end)</b>	<p><b>Final date for despatch of payments by trusts, PCTs and SHAs to other NHS bodies*.</b> For 2011/12, this means that there should be no payments made after 23<sup>rd</sup> March 2012 without prior agreement. Monitor has suggested that NHS foundation trusts should also work to this timetable.</p>
<b>Tuesday 27<sup>th</sup> March 2012 (close of play)</b>	<p><b>Final date for “Payables” organisations (creditors) to e-mail “Receivables” organisations (debtors) a statement detailing outstanding invoices dated and invoiced by 16<sup>th</sup> March 2012.</b> Payments received up to and including 23<sup>rd</sup> March 2012 must be included in the statement.</p> <p>Only one statement must be sent to each “Receivables” organisation</p> <p>A statement must be sent to each “Receivables” organisation even if the balance is under £50,000 but need not be sent if the balance is less than £500. Agreement is not required where the total balance is below £50,000</p> <p><b>Note:</b> If the PCT is one that hosts one of the Specialised Commissioning Groups (SCGs), then they must be sent two</p>

Date	Detail
	separate statements: one for the PCT activity and one for the SCG. The SCG statement should clearly identify values by individual PCT within the SCG and the PCT codes must be inserted.
<b>Thursday 29<sup>th</sup> March 2012</b>	<b>If a statement has not been received by 29<sup>th</sup> March 2012.</b> The “Receivables” organisation to inform the “Payables” organisation. In such cases, the “Payables” organisation must email a statement immediately.
<b>Thursday 5<sup>th</sup> April 2012</b>	<b>Final date for agreement of outstanding revenue Receivables and Payables dated up to 16<sup>th</sup> March 2012 and above £50,000.</b>
<b>Thursday 5<sup>th</sup> April 2012</b>	<b>Final date for “Payables” organisations (<i>creditors</i>) to e-mail accruals statement to “Receivables” organisations (<i>debtors</i>) listing all 2010/11 liabilities not invoiced by 16<sup>th</sup> March 2012.</b> These should not be posted on this date but e-mailed.
<b>Friday 6<sup>th</sup> April 2012</b>	<b>Bank Holiday</b>
<b>Monday 9<sup>th</sup> April 2012</b>	<b>Bank Holiday</b>
<b>Friday 13<sup>th</sup> April 2012</b>	<b>Complete discussions re the accruals for inclusion in 2011/12 accounts</b>
<b>Monday 16<sup>th</sup> April 2012</b>	<b>Key Data Collection.</b> SHAs to provide key data to DH (Not applicable to NHS foundation trusts)
<b>Monday 23<sup>rd</sup> April 2012: midday for DH bodies; 9am for foundation trusts</b>	<b>Submission to DH of NHS Trust, PCT and SHA unaudited schedules.</b> To DH mailbox ( <a href="mailto:fimsmail@dh.gsi.gov.uk">fimsmail@dh.gsi.gov.uk</a> ) and accounts and schedules to auditors.  <b>Submission to Monitor of NHS foundation trust unaudited accounts and FTCs.</b> Refer to the <i>FT Annual Reporting Manual</i> for submission instructions.
<b>Wednesday 25<sup>th</sup> (close of play) April 2012</b>	<b>DH distributes schedule of material variances to SHAs to manage clearance to zero of all differences.</b> This exercise will cover both Receivables/Payables and Income/Expenditure. Monitor will issue schedules of variances between FTs to

Date	Detail
	<p>those FTs affected.</p> <p>Balances must be cleared down to <b>zero</b> and organisations must ensure they do not use the Adjustment or Disputed lines inappropriately in resolving variances.</p>
<p><b>Wednesday (noon) 2<sup>nd</sup> May 2012</b></p>	<p><u>DH bodies</u> <b>NHS trusts, PCTs and SHAs provide updated FMA forms to clear identified Intra NHS balances variances only.</b> Please note this is only to correct intra NHS variances identified and it is not expected that primary statements will be altered.</p> <p>Any proposed changes to the forecast income / forecast expenditure or outturn must be agreed with the SHA who will notify the Department.</p> <p><u>Foundation trusts</u> <b>NHS foundation trusts provide updated FTC forms to clear identified Intra NHS balances variances only.</b> Foundation trusts may amend the primary statements and the notes to the accounts where necessary, however the purpose of the 2 May return is to collect updated agreement of balances information. Any changes to the accounts must be agreed with your auditors and should form part of the post-audit submission of the accounts and FTCs on 31 May.</p>

***\*Bills should not be settled between NHS organisations during the last 5 working days of the financial year without the prior agreement of the receiving body, i.e. No payments made after 23<sup>rd</sup> March 2012. This is not intended to prohibit proper payments between NHS organisations, the Department or ALBs, but to ensure that sufficient time is available for the recipient to take sums into account when managing cash at the year end. The Department will not action any payments in the last 5 working days of the year, i.e. no payments after 23<sup>rd</sup> March 2012.***