

Guidance on accounting for 2020/21 items

Version 3: 26 March 2021

About this document

This document is intended to help NHS organisations understand the treatment of items that are new for 2020/21. It does not form part of an accounts direction: any specific guidance on accounting practices to be followed are contained in the DHSC Group Accounting Manual (GAM) or its additional guidance, and explained here.

All of the matters explained in this document only apply to accounts (and PFR forms) prepared at month 12. None of these areas should be reflected in month 11 monitoring forms.

Others matters covered elsewhere

Guidance to providers on **categorising and recording income** in 2020/21 is provided in the TAC Completion Instructions document.

Guidance on other matters continues to be available on provider portals and the commissioner Sharepoint guidance library.

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Updates to document

Version	Updates
1, 12 February	First issued
2, 9 March	Key changes: <ul style="list-style-type: none">• Chapter 1: new section on process for diagnostic equipment• Chapter 2: guidance added on accounting for the transfer of protective personal equipment inventory items between bodies• Chapter 3: new chapter on accounting and process for PHE intensive care medicines stockpile• Chapters 6 (vaccines) and 7 (testing kits) added
3, 26 March	Key changes: <ul style="list-style-type: none">• Chapter 1: new section on process for testing equipment (same accounting as other equipment)• Chapter 2: improved clarity on disclosures for transfers of items between trusts• Chapter 5: reference added to Nightingale trusts' accounts disclosure which is now available• Chapter 7: clarified that elements of testing kits purchased by trusts themselves should be treated as normal.

1. Centrally procured equipment

DHSC centrally procured ventilators and other medical equipment

Definition and policy

DHSC has established a national pandemic equipment pool (termed the 'national loan stock') of ventilators and other medical equipment to support the pandemic response in England. This equipment is made available to trusts free of charge. A list of these equipment types is provided in [Appendix 1](#).

Completing the transfer of ownership of assets to trusts will happen in 2021/22. For many assets, trusts will retain usage and control the equipment as at 31 March 2021.

Accounting

Where trusts hold such equipment, they obtain the economic benefits from its use and control its use. Items are only taken back to the national equipment pool with trusts' agreement. Items held by trusts on 31 March 2021 should therefore be recorded in trusts' accounts. These are not lease transactions as no payments are made.

Where items are held by trusts at the year end, these are in substance donations to trusts and will be treated as such. This will be confirmed in the DHSC GAM. Trusts should follow established accounting for donated assets. This means the recognition of assets will not score to capital envelopes, and depreciation on donated assets does not score to 'adjusted financial performance', the basis of revenue performance on which trusts are held to account.

Items should be treated consistently with the trust's existing capitalisation policies. Items with a value above £5,000 will be capitalised as donated assets. An equivalent non-cash gain is recognised in income upon receipt of the item. Items below capitalisation thresholds will be charged to operating expenses. Again a non-cash gain is recognised in income, in this case equivalent to the amount recorded in expenses. Specific rows in the TAC schedules should be used for these non-cash income items.

If a capital item is subsequently passed back to DHSC in 2021/22, the Trust will cease to include the item on its balance sheet when it passes control of the asset as defined in accounting standards. Further guidance on 2021/22 accounting for such transactions will follow in the future.

Trusts should depreciate capital assets from the point at which the trust brought them into use. Information provided by DHSC will include the date of assignment which may be used to support this assessment, but the depreciation period and charge is a judgement for the trust.

Process

During w/c 22 March 2021 DHSC will provide trusts with a listing of equipment items

(including values) it has provided to that trust up to 31 December 2020. Trusts will be able to contact the england.coviddonation@nhs.net mailbox to query this if necessary. If any assets have been transferred between trusts, the england.coviddonation@nhs.net mailbox should be advised so that records can be updated. However due to the tight timescales, receiving organisations are under no obligation to validate the provisional settlement figures. There will be an opportunity to carry out validation and correct any discrepancies in 2021/22.

On 7 April, DHSC (from the england.coviddonation@nhs.net mailbox) will provide trusts with a listing of equipment items held by that Trust on 31 March 2021. These should be accounted for by trusts in line with the guidance above. No accounting/recording by trusts is expected before month 12.

The donation process will be completed in 2021/22 and trusts will have an opportunity to review the donated assets they hold, hand back assets and seek additional items from the national pool.

Contact

Please contact england.coviddonation@nhs.net with any queries over this process.

DHSC testing equipment [added 26 March]

Definition and policy

Further equipment has been made available to trusts as part of DHSC's Test and Trace programme. Details for these items of equipment are being provided separately, but the accounting principles are the same as those for the ventilator equipment programme set out above.

Accounting

Please refer to the section '*DHSC centrally procured ventilators and other medical equipment*' above.

Process

On 26 March 2021 trusts will be provided (via Provider Accounts) with a listing of testing equipment items currently held by the trust which are considered donations in substance, with legal transfers completing in 2021/22. Trusts will be able to contact the england.pathology-covidsupply@nhs.net mailbox to query this if necessary and advise of any subsequent transfers.

On 7 April trusts will be provided (via Provider Accounts) with a final listing of the assets held by the Trust at 31 March. These should be accounted for by trusts in line with the guidance above. No accounting/recording by trusts is expected before month 12.

DHSC and NHS England diagnostic imaging equipment

Definition and policy

NHS England and NHS Improvement's Imaging Services Transformation team has managed the deployment of CT scanners, relocatable boxes to house CT scanners, injector pumps and mobile x-ray units to trusts as part of the pandemic response. This equipment is made available to trusts free of charge.

Memoranda of understanding will be put in place during March 2021 to transfer the ownership of these equipment assets to trusts. Guidance will follow on whether trusts should record individual items as being donations from DHSC or NHS England.

Accounting

Trusts should follow established accounting for donated assets. This means the recognition of assets will not score to capital envelopes, and depreciation on donated assets does not score to 'adjusted financial performance', the basis of revenue performance on which trusts are held to account.

These items will be capitalised as donated assets in line with trusts' capitalisation policies. An equivalent non-cash gain is recognised in income upon receipt of the item. A specific row in the TAC schedules should be used to record these additions which will populate the non-cash income.

Trusts should depreciate capital assets from the point at which the trust brought them into use. Information provided by the national bodies will include the date of assignment which may be used to support this assessment, but the depreciation period and charge is a judgement for the trust.

Process

On 12 March 2021 trusts will be provided (via Provider Accounts) with a listing of items currently held by the trust for which it is intended memoranda of understanding will be issued to transfer to the trust. Trusts will be able to contact the nhsi.imagingprocurement@nhs.net mailbox to query this if necessary and advise of any subsequent transfers.

On 7 April trusts will be provided (via Provider Accounts) with a final listing of the assets where ownership transferred to them on 31 March. These should be accounted for by trusts in line with the guidance above. No accounting/recording by trusts is expected before month 12.

Other equipment items

Laptops and other mobile IT equipment

Laptops and other items of mobile IT equipment have been supplied free of charge by NHS England to trusts and commissioners. These items are below capitalisation

thresholds unless treated as a grouped asset. The value of items received is not material to local accounts and is not material nationally. Given the immaterial nature it is recommended that these items are recorded at nil in local accounts; NHS England will account for the expenditure nationally.

If any individual provider has a significant value of laptops and wishes to account for the benefit received (either as a donated asset from NHS England or revenue expenditure associated with donation income credit for items not capitalised) it is able to do so by exception. If this optional approach is followed, the accounting will be the same as for the ventilators programme as detailed above. Please contact Provider Accounts to have relevant rows within the TAC schedules unlocked if you wish to follow this approach. Please also contact Provider Accounts if you wish to follow this approach and require additional information from NHS England on unit prices.

2. DHSC centrally procured consumables: personal protective equipment

Accounting for inventory movements

Definition

Since the start of the pandemic, DHSC has centrally procured personal protective equipment and these items have been provided to trusts free of charge. Trusts take ownership of the inventory items upon receipt and, in accounting terms, they are utilised “in the production process”, ie the treatment of patients. For some trusts where the holding of consumables is normally not material, their policy is that amounts are normally recognised directly in expenditure on purchase.

Accounting and national budgeting

The items received by trusts are considered a transfer of resources akin to a ‘government grant relating to income’ in IAS 20. This treatment is supported with reference to the Conceptual Framework explaining where a transfer of assets not on market terms should be recognised at a ‘deemed cost’. The deemed cost for trusts will be what it would have cost the trust to acquire those items at that point in time. This deemed cost on receipt (price x quantity) is a debit to inventory (see paragraph below regarding inventory treatment) with an equivalent non-cash credit recorded within the other operating income note for the value of the ‘grant’ realised.

After recognising the items in inventory, trusts will record a charge to operating expenditure when items are utilised. For centrally-procured inventory items as part of the pandemic response, the charge to national revenue budgets will be recognised by the Department upon purchase. This means accounting for centrally procured inventories will be budget neutral for trusts with both the ‘grant’ income and the utilisation expenditure being excluded from ‘adjusted financial performance’, the basis of revenue performance on which trusts are held to account.

In summary:

- for trusts treating consumables as inventory: where items are received and used in the same period, the ‘gain’ in income will match the utilisation charge to expenditure and there is no impact on the bottom line. Where items are used in a future period, the non-cash income and expenditure charge will be recognised in different periods: both items will be removed from ‘adjusted financial performance’
- for trusts where consumables inventory is not material and purchases/receipts are charged to expenditure: the ‘gain’ in income will be equal to the amount in expenditure.

Inventories at the year end will be measured at market prices, to reflect the net realisable value of the inventory. Where market prices are lower than the cost prices incurred by DHSC on trusts’ behalf, the difference will be recorded as a write-down of

the inventory value. More detail on this is provided in the following sections.

Putting into practice: inventory movements

To simplify data collection, the TAC form inventories note will have a specific column for centrally-procured personal protective inventories. We do not require trusts to show this column separately in the inventories note in their accounts. In many cases, the inventory lines supplied by the Department are distinct from those purchased by trusts. But where necessary, reasonable judgements can be made in splitting year end balances between trusts' own purchased inventories and those from central procurement. If trusts' own purchases were concentrated in the earlier part of the year, then given the high turnover of these items and the 'first in first out' cost measurement, items in stores at the year end are more likely to have been from DHSC central procurement.

Having a separate column for these items should simplify the process. The deemed cost for recognising receipt of these items will be provided to trusts. Once the year end value is determined, the utilisation during the year is in effect the balancing figure.

Additional guidance for trusts with a policy to not record consumables in inventory

Where trusts do not recognise consumables in inventory on the grounds of materiality, we do not require trusts to change this policy. Trusts should ensure it remains immaterial given increased stock holdings by many: information on unit prices will be provided to support this assessment as explained below. Where trusts do employ this policy, TAC forms should record the receipt of items in inventory with an equivalent figure in utilisation, which then drives the expenditure charge. In trusts' local accounts the receipt and utilisation may be omitted from the inventory note, which has the effect of the inventory being charged directly to expenditure on receipt. This is a permissible inconsistency between TACs and local accounts in 2020/21.

Provision of information: recognising receipt of items (additions to inventory)

The unit cost of items has changed considerably since the start of the financial year. This needs to be taken into account in determining a reasonable 'deemed cost' for trusts to use in initial recognition. DHSC will provide trusts with information on the quantities of items in each shipment given to that trust, and average monthly unit prices for each month of 2020/21. The deemed cost of inventory receipt will be price x quantity.

There will be three releases of information to support trusts recording the receipt of items: two in February and March will be for information purposes, and the third in April should then be used for local accounting:

- 1) For information: On 12 February 2021 DHSC (issued from NHS Improvement's Provider Accounts mailbox) will provide each trust with a schedule listing items distributed up to month 9 (31 December 2020) and indicative prices up to December. The data feeding into these prices is still being refined. No accounting is required at this stage: this is provided to help trusts familiarise themselves with

the information before the year end, and there will also be an opportunity for trusts to challenge this information in the unlikely event that a trust considers it has better and markedly different data on quantities received. The DHSC team can be contacted at outboundqueries@dhsc.gov.uk .

- 2) For information: On 10 March 2021 DHSC will provide each trust with a schedule listing items distributed up to month 11 (28 February 2021) and monthly prices up to February. These prices reflect the prices paid by DHSC on trusts' behalf. No accounting is required at this stage: this is provided to help trusts familiarise themselves with the information before the year end, and there will also be an opportunity for trusts to challenge this information in the unlikely event that a trust considers it has better and markedly different data on quantities received. The DHSC team can be contacted at outboundqueries@dhsc.gov.uk .
- 3) For accounting: In early April 2021 (and expected to be by 13 April at the latest) DHSC will provide each trust with a schedule listing items distributed for the full year and monthly prices up to March. This will also show a computation of price x quantity: this total will give the figure to be used in accounts and TAC schedules for the deemed cost of inventories received.

As detailed above, no accounting / recording of these items is expected before month 12. This should not be included in month 11 monitoring returns.

Provision of information: valuing year end inventory holdings

As explained above, year end stock holdings should be measured at net realisable value, based on market prices. In some cases these may be lower than the cost prices paid by DHSC. The Department will provide market price information on 15 March as a basis for measuring the net realisable value of year end inventory holdings measured at 31 March.

Planning for the year end will include each trust considering whether its year end stock holdings of such items are likely to be material and engaging with auditors: see also chapter 4 of this document. DHSC is currently working on being able to provide information to trusts in the coming weeks on current estimated market prices. This would be for information purposes only to help trusts gauge whether its year end stock holding of such items is likely to be material. In the meantime, trusts may wish to use the price information issued on 12 February which reflects prices paid by DHSC, but trusts should note that market prices at the year end may be lower.

Difference between 'deemed cost' of items and market value

The market price used to compute the net realisable value of items at the year end may be lower in some cases than the prices paid by DHSC on purchase and used for the deemed cost. This difference will be recorded as a write down (impairment) by the trust. This will be computed using the trust's year end quantity, as the difference between the March 2021 deemed cost prices and the year end market values, both provided by

DHSC. A write down impairment in valuation of these centrally procured items to market prices is not a loss in accountability terms, will be excluded from adjusted financial performance and should not be included in a disclosure of losses and special payments.

Where stocks are held on behalf of other entities

Where consumables have been purchased by trusts, they will be accounted for in the usual way. The guidance in this section only explains the required accounting for items provided free of charge by the Department.

Where items are held collectively, then the entity that owns the items will account for them as its inventory.

Summary of the above in TAC schedules

- (1) **Additions:** Information provided by DHSC:
- On 10 March with info up to M11, for information purposes
 - By 13 April with info for full year

- (2) **Closing value:** Measured by trusts based on market prices: held at net realisable value
- DHSC will provide info on market prices on 15 March for year end measurement
 - Illustrative info on market prices (to help assessing stock values for year end planning) intended to be provided before that

Note 19 Inventory movements - 2020/21	A17CY01	A17CY02	A17CY03	A17CY03A
	Total 2020/21 £000	Drugs 2020/21 £000	Consumables 2020/21 £000	Consumables donated from DHSC group bodies 2020/21 £000
Carrying value at 1 April 2020 - brought forward	0	0	0	0
Additions (purchased)	0			
Additions (donated) - directly from DHSC	0			
Additions (donated) - from NHS provider (purchased by DHSC)	0			
Additions (donated) - from NHS provider (purchased by provider) (unlocked on request)	0			
Inventories consumed (recognised in expenses)	0			
Write-down of inventories recognised as an expense*	0			
Reversal of any write down of inventories	0			
Transfer (to) / from inventory work in progress	0			
Carrying value at 31 March 2021	0	0	0	0
Of which:				

- (3) **Impairment** down to market value
- For year end quantity: difference between DHSC cost price (used for additions) and current market prices (used for closing net realisable value) will be an impairment

- (4) **Inventories consumed** is then in effect the balancing figure

Agreement of balances

The donation of centrally-procured protective equipment inventory is not a trading transaction and should be excluded from agreement of balances processes. This is also the case for transfers between trusts as covered below.

Transfers between trusts and from trusts to other entities

Items of personal protective equipment have been transferred around the health system as part of the pandemic response. This section applies where items received and/or owned by a trust have then been donated to another entity and so all parties to the transactions are considered principals. This section does not apply to any cases where inventory items have been sold (and cash or other consideration exchanged) between parties: this would be a trading transaction.

Donation by trust of purchased inventories

Where a trust donates inventory it has purchased to another party, the Trust should record this as inventories consumed (utilised) in the inventories note. The associated expenditure charge will be reflected in 'adjusted financial performance' as normal. If this is material for your trust, consider adding additional information to your accounts which explains this component of inventories consumed.

The DHSC GAM will confirm that these are not considered 'gifts' in application of the Managing Public Money definition.

Our understanding is that trusts have not donated material amounts of purchased inventory. If this is material for your Trust, please contact Provider Accounts and notify us.

Donation by trust of DHSC centrally procured items

In this circumstance, the trust has donated inventory that the trust itself received as a donation. This should be recorded as inventories consumed (utilised) in the inventories note, in the 'Consumables donated from other DHSC group bodies' column. Utilisation of DHSC centrally procured inventory is excluded from 'adjusted financial performance' as explained earlier in this chapter. If this is material for your trust, consider adding additional information to your accounts which explains this component of inventories consumed.

The DHSC GAM will confirm that these are not considered 'gifts' in application of the Managing Public Money definition.

Trusts in receipt of inventory donated by another trust

There will be many examples where trusts have received immaterial amounts of stock from another trust as part of the pandemic response.

Trusts are encouraged to be mindful of materiality and where possible account for immaterial transfers from other providers at their nil cost and not gross up the 'deemed cost' and utilisation. Where such receipts are significant, trusts may wish to add a line of disclosure beneath the inventories note in accounts with an estimate of the value of inventories received from other trusts and utilised.

Where the transaction is material (value of benefit received) for the receiving trust, then

the same accounting should be followed as that for items directly provided by DHSC. These items should be recorded in the relevant rows in the “consumables donated from DHSC group bodies” column in the inventories note. Where relevant, please ask the donating trust whether they were items they had received from DHSC or those purchased themselves. Our understanding is that these will overwhelmingly be the former, ie redistribution of items provided by DHSC rather than purchased by trusts. Recipient trusts should obtain information from donating trusts to support assessment of cost where necessary. Trusts are encouraged to be pragmatic in their approach, recognising that the receipt and consumption of donated inventory items does not score to adjusted financial performance for the recipient trust, and being mindful of different trusts having different levels of materiality.

3. DHSC and Public Health England (PHE) intensive care (ITU) medicines stockpile

Definition

To support trusts as part of the pandemic response, a national stockpile of critical ITU medicines has been established. It is expected that trusts will start to draw on this stockpile by the end of 2020/21. When ordered by trusts these medicines are transported from PHE facilities and are provided to trusts free of charge.

Accounting: recommended simplifying assumption

The inventory items provided under this scheme are not material nationally and are not expected to be material for individual trusts. We therefore recommend a simplifying assumption be exercised and no local accounting be performed for these items received at nil cost. This is inconsistent with the approach being taken to personal protective equipment, but we believe is proportionate given the value of the items involved.

Optional inventory recording based on 'deemed cost' approach: accounting and recording

Information will be made available on quantities transferred and associated prices for a deemed cost (nil actual cost) for trust recording where requested. This is expected to be applicable where:

- an individual trust has made greater use of this stockpile and believes the economic benefit derived from it be to significant for its accounts; or
- where a trust has accessed this stockpile and has not used the items by year end: accounting for the receipt at deemed cost value is the best way of recording the year end holding.

Trusts that want to follow this approach will need to get in touch with Provider Accounts and request the necessary cells be unlocked in the TAC schedules of their month 12 PFR form. The entries outlined below must be entered in these cells, including a specific column in inventories. It is expected trusts will record the entries as part of 'drugs' in local accounts.

Where trusts do adopt this approach, these medicines should be treated in a similar way as personal protective equipment as outlined in chapter 2: the deemed cost for providers trusts will be what it would have cost the provider trust to acquire those items at that point in time. This deemed cost on receipt (price x quantity) is a debit to inventory with an equivalent non-cash credit recorded within the other operating income note for the value of the 'grant' realised. After recognising the items in inventory, trusts will record a charge to operating expenditure when items are utilised. These income and expenditure items will net to nil when items are obtained and utilised in the same period.

Process for optional inventory recording based on 'deemed cost' approach

From 7 April 2021, the Provider Accounts team expects to have information available on individual trusts' quantities obtained and associated 'prices' for deemed costs. These statements will not be distributed to trusts given the recommended process above. Where trusts would like to request this information please contact Provider Accounts after this date.

4. Inventory balances at year end

Planning the year end

At the time of writing (late January 2021), we cannot say with certainty what restrictions may be in place at the time of the year end which will affect processes for trusts and auditors in relation to inventory.

But it remains important to firstly consider how the trust intends to satisfy itself on the accuracy of year end inventory balances in accounts. Auditors can then assess to what extent they can place reliance on the trust's arrangements, together with any further procedures required by auditing standards.

An important first step is to determine whether year end inventory is likely to be material. Chapter 2 of this document gives guidance for assigning values to items provided free of charge through central procurement arrangements. Depending on quantities and volatility, it may be possible to use alternative procedures in locations where it is difficult to count items, such as clinical areas. Trusts should discuss this with auditors as part of planning for the year end.

5. Nightingale facilities

Trust accounting for interest in the premises

The primary leases for Nightingale facilities are between NHS England and the venue owner. There are secondary documents involving the host trusts, which are either between the trust and NHS England, or are between the trust and NHS England and/or the venue operator.

From the perspective of the trust, the current lease accounting standards (IFRIC 4 and IAS 17) require payments to be made by a lessee for the contract to be in scope. Our understanding of the arrangements is that in some cases the trust is paying a peppercorn amount; in other cases the trust is making no payments.

For trusts making peppercorn payments, the trust's interest in the facility is an operating lease. Where this remains the case at the year end, the Trust will disclose its operating lease commitment. However, given the peppercorn nature of the payments, this will be highly immaterial to the accounts and could be omitted.

Additional disclosure requirements

The Nightingale premises will not be recognised as assets on trusts' balance sheets, and no significant operating lease payments or commitments will be disclosed. Nonetheless, we consider the facilities to be material by nature given the effect of the pandemic, and users of accounts will expect adequate explanation in the host trusts' accounts. The DHSC GAM will mandate a disclosure within host trusts' annual reports and accounts to give information on the Nightingales. Our recommended format for meeting this requirement is now available in the 2020/21 provider accounts templates, available on provider portals.

6.COVID-19 vaccines

Provider accounting

NHS providers are not considered principals in the administering of vaccines and any stocks held for a short time are held on behalf of Public Health England. The DHSC GAM will confirm that providers should therefore **not** consider vaccines as their own items of inventory balances or inventory movements.

Other transactions associated with the vaccination programme (for example costs incurred directly by providers) should be accounted for based on the substance of the transaction.

7.COVID-19 testing kits

Provider accounting

In the language of accounting standards, testing kits are not directly 'consumed in the production process' (ie the treatment of patients) for providers. The administration of testing kits on behalf of Test and Trace is not considered to give rise to inventory. These are provided free of charge to trusts, with trusts reimbursed for other associated costs. Nationally these testing kits will be considered to be consumed/utilised when issued. The DHSC GAM will confirm that providers should therefore **not** consider testing kits as their own items of inventory balances or inventory movements.

This guidance applies to testing kits (or elements of testing kits) provided free of charge to trusts via central arrangements. Trusts are able to continue to account for items purchased themselves as normal.

Appendices

Appendix 1: List of equipment types in DHSC central supply

- Mechanical Ventilators - ICU
- Mechanical Ventilators - Transport
- Mechanical Ventilators - Anaesthetic
- Mechanical Ventilators - Emergency
- ECMO Machines
- NIV (BiPaP)
- NIV (CPAP only)
- Oxygen Concentrators
- Humidifiers
- Video Laryngoscopes (reusable)
- Video Laryngoscopes (single use)
- Bronchoscopes
- Blood Gas Analysers
- Enteral feed pumps
- Enteral giving set
- Protein Feed
- Patient Monitors
- Patient Monitor Consumables
- Renal
- Suction pumps
- Suction pump consumables
- Syringe drivers
- Volumetric Pumps
- Tracheostomy Tubes
- Catheters
- Vascular Ultrasound
- CT Scanners
- HME - HEPA Filters
- Ventilator Consumables