

The new GMS contract explained

Focus on....

Cash to Accruals Conversion Factor

This guidance note has been produced by the General Practitioners Committee to help GPs and Local Medical Committees to understand the concept of a cash to accruals conversion and to update the profession on national discussions.

What are 'cash' and 'accruals'?

When a contractor's accounts are drawn up by accountants on a 'cash' basis this means the accounts are reporting the actual amount of income that was received during the relevant year.

When a contractor's accounts are drawn up on an 'accruals' basis (or on a 'resource' basis using the Government's current accounting parlance) this means the accounts report the amount of income that was due to contractors in that year, regardless of when it was actually received.

It is standard accounting practice, not just in relation to GP practices' accounts, to convert accounts from a cash basis to an accruals basis.

Furthermore, it is customary for such adjustments from cash to accruals to be positive because, other things being equal, additions (items that fell due within the period but were paid thereafter) are on a higher price base than subtractions (items that fell due before the period but were paid during the period) due to pay or price increases.

This means that, on conversion from cash to accruals, income added to the accounts because it fell due within the relevant year, although it was paid after that year, normally has a higher price because it is bringing forward monies from a later year into a previous year. The income that is subtracted because it fell due before the relevant year, although it was paid during the relevant year, will normally have a lower price. Thus, if the income for the same amount of work were added and subtracted, the result would be a greater amount in the accounts because the price of the later income would be higher than the previous income.

Background to the current situation

In one of its Allocations Working Papers to PCTs in England (AWP(04-05)PCT07), which was published in October 2003, the Department of Health noted that the baseline global sum equivalent expenditure for 1 July 2002 to 30 June 2003 would be on a cash basis and that the final global sum equivalent would need to be calculated on a resource [accruals] basis. The instruction to PCTs was to report the global sum equivalent on a cash basis, which the Department would convert into resources using a "national uplift". The Department also noted that cash payments for the first quarter of 2003-04 should be at 2002-03 prices because the pay deal for 2003-04 did not become effective until October 2003 and the backdated arrears would be recorded as a separate lump sum.

As you may have read in the edition of GPC News published on Friday 21 May, the GPC has disputed the national adjustment of cash to accruals for the Global Sum Equivalent calculation in England.

The reason for the GPC having disputed this adjustment is because rather than applying a national uplift, the Department has announced that a conversion factor of 0.9956 would apply, which would have the effect of reducing the global sum equivalent calculation, not increasing it.

The current situation

In order to convert the baseline data for 2002-03 for the final Global Sum Equivalent from a cash basis to an accruals basis, the Department believes a factor of 0.9956 should be applied. Due to the reference in AWP(04-05)PCT07, we were expecting a conversion factor from a cash basis to an accruals basis for the Global Sum Equivalent calculation. However, we had been led to believe the factor would be positive, not negative.

Following the announcement that an accruals factor of 0.9956 should be applied nationally to convert baseline 2002/03 data to Global Sum Equivalent, we wrote to the Department's Director of Finance and Investment for the derivation of this figure.

We have now received a response from the Director of Finance and Investment in which some evidence is provided of the Department's calculation leading to a negative accruals factor of 0.9956. However, we still have reservations and believe that we need much more data before we can accept this figure. We will continue to investigate this further before responding to the Department.

Advice to practices

All practices will recently have received, or are about to receive from their PCT, a document in which to indicate acceptance of the final Global Sum Equivalent figures for their practice. PCTs were due to have completed this process by 4 June 2004.

The GPC:

- § advises practices to inform their PCT that this issue is being considered at a national level;
- § advises practices signing off their figures that they should only do so noting to the PCT that their agreement is subject to discussions at national level;
- § advises practices that they could also advise their PCT that they may wish to enter the formal dispute resolution procedure should this matter not be satisfactorily resolved.

Alternatively practices that wish to use the formal dispute resolution procedure in the first instance may do so.

The GPC will keep LMCs informed of national developments.

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