



# HM TREASURY

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22 July 2004

**DAO(GEN)11/04**

Dear Accounting Officer

## **BACS FILE AND ITEM LIMITS AND “GRADE 3” USER ARRANGEMENTS**

### ***Summary and Purpose***

This letter indicates two ways in which Accounting Officers can achieve value for money (vfm) in banking and payments systems in using the BACS electronic payments system. Departments and other public bodies are to check whether they use, or should use, the system for funding BACS direct credit payments known as the BACS “Grade 3” system; to ensure that they have in place value limits on their BACS input files (and items) against all their Direct Credit BACS User Numbers; and to note that the Office of HM Paymaster General (OPG) will advise the banks which act as sponsors for user input to the BACS system that this action is underway.

### ***Action and Contacts***

- Accounting Officers are asked to note the contents of this DAO letter and ensure it is drawn to the attention of the appropriate finance staff in their department and any bodies the department sponsors.
- Any enquires about the advice in this letter should be addressed to **Peter Harris** (Exchequer Funds & Accounts Team) on **020 7270 4929** or to e-mail address [peter.harris@hm-treasury.x.gsi.gov.uk](mailto:peter.harris@hm-treasury.x.gsi.gov.uk).

### ***Background***

- The BACS direct credit system is recommended by the Treasury for payments to beneficiaries external to Government. It includes a special facility, the BACS “Grade 3” arrangement, for public bodies holding accounts with OPG that ensures that funds paid by BACS are retained in Exchequer accounts as long as possible (helping to increase government interest receipts



and reduce borrowing). Any OPG users not currently taking advantage of the Grade 3 system should consider adopting it.

5. Within the BACS system, there is a facility that can be used to guard against the risk of overpayment by setting value limits. Setting such limits is an important anti-fraud measure that helps to protect Accounting Officers and the public funds for which they are accountable.

6. Annex B to this DAO letter sets out detailed guidance on both these facilities. In particular departments and other public bodies are asked to:

- a. check whether they use, or should use, the system for making BACS direct credit payments known as the BACS “Grade 3” system; and
- b. ensure that they have in place value limits on their BACS input files (and items) against all their Direct Credit BACS User Numbers; and
- c. ensure that their sponsor bank formally agrees in writing to operate the new or revised limits as part of its contract with the department.

8. Any departments that cannot reach agreement with sponsor banks over the setting of realistic file limits for Grade 3 users should contact [peter.harris@hm-treasury.x.gsi.gov.uk](mailto:peter.harris@hm-treasury.x.gsi.gov.uk). Departments should also advise if they are unable to set realistic file (and item) limits and the reasons why. Departments and other public bodies should note that the Office of HM Paymaster General (OPG) will advise the banks which act as sponsors for user input to the BACS system of the advice in this DAO letter so that they can anticipate any necessary action.

9. This DAO guidance will be reflected in the next update of Government Accounting. Annex A to this DAO letter contains the current relevant extracts from *Government Accounting* (Paragraph 28.4.7) and the OPG Banking Services User Guide (Section 11.1) and annex B contains detailed guidance about using the BACS Grade 3 arrangements and the setting of file (and item) limits.

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**Extract from Government Accounting (Section 28):**

**28.4.7** Where departments with OPG accounts make bulk electronic payments via BACS, they should generally use the OPG's Central BACS Funding Account at the Bank of England. If, for exceptional reasons, a department uses BACS but is not a party to these special funding arrangements, the total of its payments is debited to the department's account with a private sector bank. Arrangements would therefore be needed for sufficient cleared funds to arrive in that account on Day 3 of the BACS cycle, but no earlier.

**Extract from OPG Banking Services User Guide (Section 11.1):**

OPG customers originating Direct Credit files enjoy a unique status that ensures their files are funded automatically from their OPG account on Day 3 of the BACS processing cycle provided they are registered as a "Grade 3 User". Funds are therefore retained in OPG customer accounts for as long as possible, where they benefit the Exchequer.

To operate within the Central BACS Funding arrangements each BACS User Number must be registered with a User Grade of "3". This is registered within the TAU (Table of Authorised Users) by the sponsoring bank to indicate the user is an OPG customer. All requests to change the User Grade should be made through the BACS Liaison area at the customer's sponsoring bank but the sponsoring bank must obtain initial approval from OPG/Bank of England before making the change. "Grade 3 User" status provides the authority for BACS to re-direct every credit contra (the balancing debit by which BACS are funded for the credits dispersed) submitted under the BACS User Number concerned. This is directed to an OPG account at the Bank of England and not to the local branch of the sponsoring bank.

Each "Grade 3" BACS User Number must be associated with an OPG account. Therefore whenever a new User Number is set up, or an existing User Number converts to "Grade 3", OPG must be informed by the customer (in writing) of the User Numbers and the OPG Account to which the BACS files should be charged. Where customers operate multiple BACS User Numbers the debits can be directed to a single OPG account or to separate accounts. All such requests must be authorised by a member of the **GS4** signatory panel. Assuming OPG has received written authority from the customer they will approve the sponsoring bank's request to make the change to "Grade 3".

## ANNEX B TO DAO(GEN)11/04

The BACS direct credit system is recommended by the Treasury for payments to beneficiaries external to Government. It includes a special facility for public bodies holding accounts with OPG which ensures that funds paid by BACS are retained in Exchequer accounts as long as possible (helping to increase government interest receipts and reduce borrowing). This is known as the BACS "Grade 3" arrangement.

2. For bodies operating under the BACS Grade 3 arrangement, settlement is made through OPG's accounts at the Bank of England, irrespective of which bank the body uses as its BACS sponsor bank. The body's account at OPG is debited with the appropriate sum on day 3 of the BACS cycle, instead of the normal day 1. Any OPG users not currently taking advantage of the Grade 3 system should consider adopting it.

3. Within the BACS system, there is a facility that can be used to guard against the risk of overpayment by setting value limits. Setting such limits is an important anti-fraud measure that helps to protect Accounting Officers and the public funds for which they are accountable.

4. The value limits apply to the aggregate total of the items in an input file (a file limit), and to individual items within files (an item limit). Users can choose a daily, weekly or monthly file limit as appropriate to the size and number of files they normally submit. File and item limits should be a little above the normal value level but not so high as to allow obvious overpayments (or potential internal frauds) to slip through. Values submitted to BACS in excess of these limits result in either of the following allowing investigation and scrutiny of the "Overlimit" files and items:

- a) File limit breaches for the period covered are referred by the sponsoring bank to the Originator of the payment file(s) on Day 2 of the BACS processing cycle at the latest in time for the Originator to take appropriate action,
- b) Item limit breaches are currently reported by BACS on paper reports sent to the Originator via First Class Post. Under BACSTEL-IP an electronic version of the Input Report will be available within 3 hours of submitting the file.

5. The setting and use of file and item limits is mandatory for bodies that arrange their BACS transactions through OPG. Treasury and Bank of England consider this as best practice. Many users of BACS Grade 3 arrangements using other sponsor banks also require and use file and item limits. However, we are aware that this is not yet the practice in all cases.

6. The status of BACS Grade 3 users was last confirmed to the banking sector in 1994 at which time an assurance was given that all "credit contras" (the file totals that are re-directed to OPG for settlement) would be met in full. However, in 1994, the letter giving this assurance also stated that the setting of financial file limits against BACS Grade 3 users' accounts was unnecessary.

7. In the context of preparing for the move to BACSTEL-IP (the internet version of the BACS input medium), BACS sponsor banks have asked OPG, through the Bank of England, to confirm the undertaking on settlement, and the setting of financial file limits, for BACS Grade 3 users. Since the setting of financial limits reflects good practice and protects public funds, OPG will re-affirm the position on settlement, but revoke the statement that the setting of file limits is unnecessary. This will be conveyed to the banks through the Bank of England.

8. Departments and public bodies using BACS Grade 3 services through a sponsor bank other than Bank of England should review their practice on file and item limits. Where limits are already in place they should be reviewed to assess whether they are still set at a sensible level (and re-set if necessary). Where limits are not in place or “unlimited” file limits have been registered, bodies should make arrangements for them to be assessed and set/re-set to appropriate limits. Sponsor banks may seek to pass on a charge for dealing with “Overlimit” referrals but this must be balanced against the protection the limits provide to Accounting Officers and the Exchequer at large.

9. Departments and public bodies who make independent BACS arrangements through commercial bank accounts (not BACS Grade 3) are also advised to review their practice on file and item limits. In view of the benefits indicated in paragraphs 3-4 above, the use of appropriate limits is recommended. However, such arrangements will not be covered by the undertakings that are referred to above.

10. Departments should ensure that their sponsor bank formally agrees in writing to operate the new or revised limits as part of its contract with the department. Any departments that cannot reach agreement with sponsor banks over the setting of realistic file limits for Grade 3 users should contact [peter.harris@hm-treasury.x.gsi.gov.uk](mailto:peter.harris@hm-treasury.x.gsi.gov.uk). Departments should also advise if they are unable to set realistic file (and item) limits and the reasons why.