



Revenue recognition

Survey Report Summer 2015

Introduction

IFRS 15 *Revenue from contracts with customers* was published in May 2014. When it is adopted, it will impact on NHS provider bodies who receive income as a result of entering into contracts for services. This will have a knock on effect on commissioners who reflect the contra entry to the providers' income.

The first financial year affected is likely to be 2018/19. However, the standard has not yet been adopted by the EU. HM Treasury is currently reviewing the standard to see how it will apply to public sector bodies.

The Department of Health has been tasked by HM Treasury with feeding into a technical paper on the application of the standard in the public sector for the November 2015 FRAB meeting. HFMA are seeking to support the Department by providing evidence and information from the sector to support their work. This survey is intended to be part of the process of understanding where NHS providers currently get their income from and the variables that that income is subject to.

Two surveys were sent out in June 2015 – one for provider bodies and one to commissioning bodies. The survey was sent to all attendees of the HFMA pre-accounts planning conferences in early 2015.

The results of this survey are being shared with the Department of Health, NHS England, Monitor and the NHS Trust Development Agency and the National Audit Office. The HFMA's Accounting and Standards Committee will use the results of the survey to inform its outputs in relation to the standard.

Overview

In total 26 responses were received:

Type of body	Number of responses received
Foundation trusts	12
NHS trusts	5
CCGs	9

Not all individuals answered every question and the percentages referred to are percentages of respondents answering the specific question. (Some tables may not add up to 100% due to rounding.)

The survey revealed the following key points:

- Most respondents are waiting for guidance to be issued on this standard to start to assess its impact on them. This may be too late as the general consensus in the accountancy world is that this standard will take a lot of time and effort to adopt in

practice

- The focus of the application of this accounting standard on the NHS contract will assist all respondents
- The adoption of this accounting standard will impact on the Department's year end consolidation, particularly the agreement of balances exercise
- There are a number of different payment streams under the NHS contract and all of them are used by many NHS Bodies so they will all have to be assessed as part of the work on this accounting standard
- Penalties, variations and partially completed spells have had a limited impact on income to date
- There will be some work to be done by individual NHS bodies particularly in relation to contracts with local authorities.

Application of the standard

When the survey was issued, the expected application date was 2017/18 so we wanted to assess whether any work had been done on its likely impact already.

Of the bodies who responded, almost two thirds had read the standard or a summary of it:

	Yes	No
Provider bodies	10	7
Commissioner bodies	6	3

Only 1 provider body and 1 commissioning body have started to consider the impact this standard will have on their organisation and/or accounting systems.

Organisations plan to start work on the standard during this current financial year or the financial year immediately before the year of application. The majority are waiting for there to be guidance on its application in the NHS available then:

	Providers	Commissioners
During 2015/16	6	2
During 2016/17	7	3
During 2017/18 (the expected year of adoption)		1
Only once the Department has issued the group guidance on the standard	7	4
Once the HM Treasury have included the standard in its FReM	2	1
Once our main providers have undertaken their assessment	N/A	3
Other (please specify):	1	

The general view in the accountancy world is that the application of this standard will take a lot of time and effort. It will require engagement with the people that write and manage contracts as well as those who gather information relating to contract performance. Some commentators expect that private sector bodies will have to amend contracts and/or put in place new contract monitoring arrangements in order to meet the requirements of this standard.

If this is the case in the NHS, then starting work on the application of this standard in 2016/17 will be too late. It is therefore important that the HFMA as well as the Department of Health keep the sector informed with developments relating to this standard and seek to engage the practice as much as possible as early as possible.

Income streams

We asked provider bodies which types of organisations were their main customers during 2014/15 and 2015/16. Unsurprisingly all of the respondents have contracts with CCGs and NHS England and these are usually in the form of the NHS standard contract. Just over half of respondents have contracts with local authorities and just under half with Health Education England.

	2014/15	Percentage of respondents
CCGs	17	100%
NHS England (specialised commissioning)	15	88%
NHS England (other direct commissioning)	5	29%
NHS bodies in the devolved nations (Scotland, Wales and Northern Ireland)	1	6%
Department of Health	1	6%
Local authorities	8	47%
Health Education England	7	41%
Ministry of Defence		
Other NHS provider bodies	4	24%
Private sector (including private patients)		
Other	1	6%

As contracts between NHS bodies (including Health Education England) are prepared using the standard NHS contract issued by NHS England it is possible that a standard approach to the application of this accounting standard could be adopted.

This conclusion was supported by the fact that only 1 provider body indicated that less than 75% of their income would result from the NHS standard contract.

There is a wider implication of this finding for the Department of Health – it means that most of the contracts affected by this standard will be intra-NHS and will therefore fall into the agreement of balances exercise at the year end. From the perspective of finalising the consolidated Departmental accounts will be important that this standard is adopted consistently across the sector and that the commissioner side is considered as part of the process.

Contracts between NHS bodies and local authorities or private sector bodies would have to be assessed on a case by case basis as there is no standard, national approach.

We asked commissioning bodies which type of organisations were their main providers in 2014/15. Again, almost all of them responded that NHS provider bodies were their main providers with the same implication for the Department's agreement of balances exercise.

	2014/15	Percentage of respondents
GPs	5	55%
NHS foundation trusts	7	78%
NHS trusts	7	78%
Other NHS bodies	3	33%
Local authorities	6	67%
Other public sector bodies	2	22%
Other (please specify): <ul style="list-style-type: none"> • Prescribing and non-NHS bodies • Continuing healthcare provisions • Prescribing costs • Private companies/providers 	5	55%

However, it is interesting to note that commissioners have almost as many contracts with GPs and local authorities which would be outside of the agreement of balances process. This conclusion was confirmed by the fact that the percentage of commissioners' expenditure is based on the NHS standard contract varies:

	2014/15	2015/16
0 to 25%		1
26 to 50%		
51 to 75%	6	3
76 to 100%	2	5

Numbers of contracts

In terms of the practical implication of applying this accounting standard we wanted to assess how many contracts provider and commissioner bodies have entered into. There was some variation here but most provider bodies had between 1 and 5 contracts with other organisations. Of some concern is the fact that 6 providers have more than 10 contracts with CCGs. As each of these will need to be reviewed as part of the application of this standard, this is a considerable amount of work.

	None	1-5 contracts	5 -10 contracts	More than 10 contracts
CCGs		7	4	6
NHS England (specialised commissioning)		16	1	
NHS England (other direct commissioning)	3	9		
NHS bodies in the devolved nations (Scotland, Wales and Northern Ireland)	6	3		

Department of Health	5	4		
Local authorities		11	2	1
Health Education England	2	12		
Other NHS providers		8	2	2
Private sector individuals or bodies	3	5	3	
Other	1	6		1

Types of contract

The NHS contract has different payment streams depending on the services being provided. Some payments streams may be affected more than others by the new accounting standard.

We asked what percentage of revenue related to each payment stream. There was no clear pattern – for most providers their income comes from all of the different payment streams so they would all have to be assessed.

The table below shows the numbers for 2015/16 in brackets. Most providers do not expect 2015/16 to be different from 2014/15. Whilst this means that work can start on the application of this standard based on the current contracting arrangements, it does not take into account any changes proposed by Monitor and NHS England for 2016/17 and beyond.

	None	Less than 25% of total revenue from patient care activities	26 to 50% of total revenue from patient care activities	51 to 75% of total revenue from patient care activities	76 to 100% of total revenue from patient care activities
National currency, national price	4 (3)	3 (3)		4 (4)	3 (3)
National currency, local price	4 (3)	6 (5)	1 (1)	1 (2)	1 (1)
Local currency, local price	3 (2)	8 (8)	2 (3)		2 (1)
Local modification to national currency, national price	9 (8)	1 (1)			
Local variation	4 (4)	3 (3)			4 (4)

The picture is similar for commissioning bodies.

	None	Less than 25% of total revenue from patient care activities	26 to 50% of total revenue from patient care activities	51 to 75% of total revenue from patient care activities	76 to 100% of total revenue from patient care activities

	None	Less than 25% of total revenue from patient care activities	26 to 50% of total revenue from patient care activities	51 to 75% of total revenue from patient care activities	76 to 100% of total revenue from patient care activities
National currency, national price		1 (1)	2 (2)	1 (1)	2 (2)
National currency, local price		4 (4)	2 (2)	1 (0)	
Local currency, local price		5 (6)	1 (0)		
Local modification to national currency, national price	3 (3)	2 (2)	1 (1)		
Local variation	3 (2)	1 (1)	1 (0)		0 (1)

Of the national currency, national price based revenue 10 provider bodies indicated that between 0 and 15% of their revenue was on a care pathway basis. However, two commissioners made between 76 and 100% of its expenditure on a national currency basis via pathways of care.

This remains more or less the same for 2015/16 although one provider body expects their revenue on a care pathway to rise to between 26 and 50%.

Local variation includes block contracts. The table below shows the percentage of the total spend on a local variation basis which was a block payment:

	Provider		Commissioner	
	2014/15	2015/16	2014/15	2015/16
0 to 15%	5	6	4	4
26 to 50%	2	3	2	1
51 to 75%	2		1	1
76 to 100%	7	6	1	2

Penalty clauses and variations to contracts

One of the implications of the new accounting standard will be to understand what the implications are of penalty clauses in contracts. The minority of provider bodies had been affected by a penalty clause in 2014/15 and they were anticipating a similar position in 2015/16.

The most common penalty was in relation to local quality requirements. Unexpectedly, provider bodies were not planning to breach the terms of their contract so fewer were expecting penalties in 2015/16. This is not what we have been told anecdotally as there is a general expectation that penalty clauses will be applied more rigorously in 2015/16.

Number of organisations who have applied variations to contracts:

	Provider		Commissioner	
	2014/15	2015/16	2014/15	2015/16
Non payment for emergency readmission within 30 days	5	4	7	6
Non payment in relation to a breach of operational standards	4	6	8	7
Non payment in relation to a breach of National Quality Requirements	6	6	5	6
Non payment in relation to a breach of Local Quality Requirements	9	5	6	5
A never event consequence	2	3	5	4
Other (please specify): <ul style="list-style-type: none"> • Ulcer target breaches • Almost all income streams affected • CQUIN • Local quality requirements re discharge summaries 	3	4		

Where penalties were applied the contract value was reduced by no more than 5%. These deductions were most commonly at the year-end (4 respondents) but also during the year on quarterly or monthly basis. One respondent paid the fine out of expenditure rather than reducing income.

In 2015/16, only 3 provider respondents expect the impact of penalty clauses to be greater in financial terms than in 2014/15.

Partially completed patient spells

Currently, the manual for accounts requires that income for spells of patient treatment which

are only partially completed at the year-end is recognised in the accounts where material

Only 2 provider bodies indicated that this was a material amount for them in 2014/15. It was not material for any of the commissioner bodies. However, one body indicated that it was a number the auditors were always interested in.

Contract length

It is expected that applying the revenue recognition standard will be more onerous for contracts which last more than a year. In 2015/16, the majority of contacts are for a year or less. However, about half of respondents will have between 1 and 5 contracts which are for more than a year.

	Provider bodies	Commissioners
None	8	3
1- 5	8	6
6 -10	1	
more than 10		

The contracts which last more than a year tend to be with local authorities or follow a tender procedure:

'Services to HMP and with a local council'

'Multilateral contracts span 3 years and in Substance misuse contracts with local authorities go out to tender on a 3 years also'

'Following a tender - Speech and Language Therapy, Health Trainers'