

IFRS 15 and the NHS Standard Contract

TO NHS

FROM DEPARTMENT OF HEALTH and SOCIAL CARE and NHS IMPROVEMENT

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1. Executive Summary

An exercise has been conducted on behalf of Department of Health and Social Care (DHSC) (and supported by NHS Improvement (NHSI)) to assess the impact of changes in the new International Financial Reporting Standard (IFRS) 15 “Revenue from Contracts with Customers” standard on the accounting treatments outlined in the NHS Standard Contract (“Contract”). This paper is the output from the analysis undertaken and should be considered when applying the appropriate accounting treatment for entities within the DHSC accounting boundary, whom are impacted by the Contract. The paper provides additional guidance to the Group Accounting Manual (GAM) that such bodies should consider when assessing the appropriate accounting treatment for other income streams and contracts.

IFRS 15 applies to all entities, for reporting periods beginning on or after 1 January 2018. The GAM requires DHSC group bodies to follow the requirements of IFRS, as adopted by the European Union, as adapted and interpreted by the HM Treasury Financial Reporting Manual (FReM). Therefore, the GAM only includes detailed accounting guidance where DHSC group bodies are:

1. required to depart from IFRS or the FReM;
2. required to make specific disclosures in addition to IFRS and the FReM; or,
3. faced with particular circumstances that IFRS or the FReM do not address.

Given the materiality of income that is generated under the Contract for the affected bodies conducting isolated assessments of the contract against IFRS 15, a discreet centralised analysis against the Contract has been viewed as the most efficient means in which to provide detailed guidance, whilst enabling the GAM to maintain its agreed approach to the 3 key principles referenced above.

2. Background to IFRS 15

2.1 Background

IFRS 15 is a mandatory requirement for NHS bodies and it will be effective for the annual period beginning on 1 April 2018. The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.

Under IFRS 15, NHS bodies will recognise revenue in accordance with the core principles by applying the following five step approach (see further section 3 of this paper):

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

These five steps will be explored further as part of this report, with specific reference in the section 'Triggers leading to impacts under IFRS 15'. IFRS 15 will have an impact on customer contracts, financial reports (income/surplus), systems, internal controls and processes. Furthermore, the new standard requires an entity to produce new quantitative and qualitative disclosure notes. Whilst in many cases IFRS 15 results in the same accounting as under IAS 18, as the framework is completely new measurement differences compared to IAS 18 will likely arise in certain instances.

2.2 Transition options

The transition to IFRS 15 can be performed using one of the two different transition methods available, those being "fully retrospective" or "partial retrospective" (cumulative catch up). The method chosen must be applied consistently throughout the organisation, on all applicable income streams.

As per paragraph 4.47 of the GAM, the transition option has been removed and bodies should adopt IFRS in the year of transition using the partial retrospective or cumulative catch up approach (refer to section 6 of this paper for guidance under the FReM). Under the partial retrospective approach, a body will recognise the cumulative effect of applying the new standard at the date of initial application (for NHS bodies as at 1 April 2018) within the opening income and expenditure reserve within taxpayers' equity (or other component of equity, as appropriate). There is no restatement of the comparative periods presented.

3. Key Determinations under IFRS 15

3.1 Five steps of IFRS 15

3.1.1 Identify the contract with the customer

A contract is an agreement between two parties that creates enforceable rights and obligations (IFRS 15 Appendix A). IFRS 15 will need to be applied to all contracts that have the following 5 attributes (IFRS 15.9):

1. Parties to the contract have approved it and are committed to perform;
2. Each party's rights to the goods/services transferred are identified;
3. The payment terms are identified;
4. The contract has a commercial substance; and
5. It is *probable* that an entity will collect the consideration – here, you also need to evaluate the customer's ability and intention to pay.

As detailed in Chapter 6 of the FReM (and section 6 of this paper) IFRS 15 has also been adapted to include:

- legislation and regulations which enables an entity to obtain revenue that is not classified as a tax; and clarification of the appropriate accounting treatment for,
- any revenue from taxation, fines and penalties which a body is permitted to retain.

If the contract does not meet all five criteria or the additional provisions for consideration received under a contract with a customer per paragraphs 14 to 16 of IFRS 15, then this will fall under the scope of another standard.

IFRS 15 also provides further guidance in relation to contract combinations and contract modifications.

- **Contract combination** happens when you need to account for two or more contracts with the same customers as if it were one contract. IFRS 15 sets the criteria for combined accounting.
- **Contract modification** is the change in the contract's scope, price or both. In other words, if you were to amend a customer contract to add/remove certain goods or services, or you provide some additional discount, you are effectively dealing with the contract modification.

IFRS 15 sets different accounting methods for individual contract modification, depending on certain conditions.

This document will now consider the five-step approach set out in section 2.1 above.

3.1.2 Identify the performance obligations in the contract

A performance obligation is any good, or service, that the contract promises to transfer to the customer. It can be either (IFRS 15 Appendix A):

- A single good or service, or their bundle that is distinct; or
- A series of distinct goods or services that are substantially the same and have the same pattern of transfer.

The objective of identifying distinct performance obligations is to depict the transfer of goods or services to the customer. An essential characteristic of a performance obligation is the word “distinct”. Distinct means “separable”, or “separately identifiable”. A good or service is distinct only if:

- The customer can benefit from the good or service either on its own or together with other readily available resources (that is, the goods or services are capable of being distinct); and
- The good or service is separately identifiable from other promises in the contract (that is, the good or service is distinct within the context of the contract).

Paragraphs 4A10.12 to 4A10.15 of the GAM offer an example of performing this assessment in relation to Maternity Pathways. The GAM asserts in paragraph 4.46 that performance obligations relating to delivery of a spell of health care is most likely to entail delivering a series of distinct good that are either substantially the same and have a similar pattern of transfer

Distinct performance obligations and their revenues will be accounted for individually, in line with their allocated transaction price. Performance obligations can be both explicit (e.g. written in the contract) and implicit (e.g. implied by some customary practices).

3.1.3 Determine the transaction price

The transaction price is the amount of consideration than an entity expects to be entitled to in exchange for transferring the promised goods or services to the customer, excluding amounts collected on behalf of third parties (IFRS 15 Appendix A).

The transaction price is not always the price set in the contract. It is the expectation of what consideration is reasonably expected to be received. Therefore at contract inception an estimation of the expected transaction price is required.

The price as stated in the contract provides an initial basis for determining the transaction price. The following areas would also require further assessment in order to determine whether there is any impact to the expected transaction price:

- **Variable consideration** – extended (and not limited to) discounts, rebates, refunds, credits, performance bonuses or penalties which should be used to determine the expected value or the most likely amount.

- **Constraining estimates in variable consideration** – variable consideration (e.g. bonus) in the transaction price where it is highly probable that this will be earned.
- **Significant financing component** – if customers have delayed payment terms, the time value of money.
- **Non-cash consideration** – whether customers are able to pay with non-cash items in return for your goods or services.
- **Consideration payable to a customer** – instances where vouchers or coupons are provided to customers.

The expected value approach represents the sum of probability-weighted amounts for various possible outcomes. The most likely amount represents the most likely amount in a range of possible amounts. The approach used is not a policy choice. Management should use the approach that they expect will best predict the amount of consideration to which the entity will be entitled based on the terms of the contract and taking into account all reasonably available information. The approach used should also be applied consistently throughout the contract. Paragraphs 4.62 to 4.68 of the GAM provide an example of applying the requirements of IFRS 15 relating to variable consideration for the Provider Sustainability Fund.

3.1.4 Allocate the transaction price to the performance obligations

Once all the contract's performance obligations have been identified and the transaction price determined, the total transaction price will need to be allocated to the individual performance obligations.

The general rule is to perform this exercise based on the relative stand-alone selling price of each individual performance obligation. A stand-alone selling price is a price at which an entity would sell a promised good or a service separately to the customer (not in the bundle).

The best way to determine a stand-alone selling price is simply to take observable selling prices and if these are not available, then these will need to be estimated via an expected cost plus an appropriate margin; an assessment of market prices for similar goods or services adjusted for entity-specific costs and margins; or a residual approach (in limited circumstances).

3.1.5 Recognise revenue when (or as) the entity satisfies a performance obligation

A performance obligation is satisfied (and revenue is recognised) when a promised good or service is transferred to a customer. This happens when a good or service is transferred to the customer and the customer obtains control of that good or service.

A performance obligation can be satisfied either:

- Over time – in this case, control is passed to the customer over some period of time (e.g. contract term); or
- At the point of time – in this case, control is retained by the supplier until it is transferred at some moment.

This determination should depict the transfer of benefits to the customer and should be evaluated from the customer's perspective. An entity should first assess whether the performance obligation is satisfied over time. If not, the good or service transfers at a point in time.

An entity will recognise revenue over time if any of the following criteria are met:

- The customer concurrently receives and consumes the benefits provided by the entity's performance as the entity performs.
- The entity's performance creates or enhances a customer-controlled asset.
- The entity's performance does not create an asset with an alternative use and the entity has a right to payment for performance completed to date.

Paragraphs 4.45 and 4.46 and Chapter 4 Annex 10 of the GAM provide further insight into the determination as to how performance obligations arise in relation to the delivery of healthcare.

3.1.6 Agent/principal considerations

Some arrangements involve two or more unrelated parties that contribute to providing a specified good or service to a customer. In such instances it will need to be determined whether an entity will deliver the promised goods and services as a principal or whether there is an arrangement for a third party to be responsible for the delivery of the goods or services. Whether an entity is acting as principal or agent in the delivery of these goods and services requires judgment and different conclusions can impact the amount and timing of revenue recognition. The three main indicators and key characteristics are as follows:

- **Primary responsibility for fulfilling the contract**
 - As indicated in the terms of the agreement.
 - Who the customer views as primarily responsible for fulfilling the contract.
 - Responsibility in providing customer support and resolving customer complaints.
 - Accepting responsibility for the quality or suitability of the product or service.
- **Inventory risk**
 - Bearing the risk of loss (i.e. physical damage, decline in value, obsolescence).
 - Risk is reduced if there is an ability to return unsold products to the supplier.
 - Non-cancellable purchase commitments (risk if the entity bears the risk of not being able to monetise the software/service).
 - Commitment to pay the service provider even if unable to identify a customer to purchase the service.
- **Discretion in establishing pricing**
 - Discretion in establishing the price that the customer pays (i.e. ability to direct use of the service and obtain substantially all of the remaining benefits).
 - Earning a fixed percentage of consideration for each sale often indicates an agent relationship as a fixed percentage limits the potential benefit.

4. IFRS 15 Implications for a NHS Provider

4.1 Revenue streams in and out of the scope of IFRS 15

IFRS 15 applies to all contracts with customers, except for:

- lease contracts;
- insurance contracts;
- financial instruments and certain contractual rights or obligations within the scope of other standards;
- non-monetary exchanges between entities in the same line of business to facilitate sales to customers; and
- certain guarantees within the scope of other standards (other than product or service warranties).

Revenue from transactions or events that does not arise from a contract with a customer is not in the scope of the revenue standard and should continue to be recognised in accordance with other standards. Such transactions or events include but are not limited to:

- dividends;
- non-exchange transactions, such as donations or contributions; and
- changes in the fair value of biological assets and investment properties.

Below is a summary of all revenue streams extracted from the Contract or indicative of a Provider, along with an assessment as to whether or not the revenue streams fall within the scope of IFRS 15. As per paragraph 4.48 of the GAM, the definition of a contract within the scope of IFRS 15 has been expanded to include legislation and regulations which enables a body to obtain revenue that is not classified as a tax. As a result, further analysis will be required across each revenue stream to identify whether there are any additional legislation and regulation arrangements which could be within the scope of IFRS 15.

This paper addresses revenue under the NHS standard contract ('the Contract') and does not extend to Private patient income and other revenue streams which do not relate to the Contract. Any revenue streams outside the scope of the Contract would need to be assessed separately for any impacts under IFRS 15.

Revenue stream	IFRS 15 assessment	
Income from patient care activities		
Elective income	This income is primarily commissioned by local Clinical Commissioning Groups (CCGs) and other health bodies for the provision of care to the relevant patients. This is on referral by the local GPs for hospital care that is required. The local CCGs pay for patients registered in their area if the hospital provides such	Y
Non elective income		Y
Outpatient Income - post hospital care		Y

Revenue stream	IFRS 15 assessment	
A&E Income	care activities. Rates for the care, depending on treatment, individual, area are set and this is costed up accordingly.	Y
Other NHS clinical income	<p>Certain activities like A&E income are driven by particular results, so there could be contractual terms to meet and with a higher performance rating, comes higher income.</p> <p>It is assumed that for all of these income streams, income is booked as and when the services are provided to the patients, and this is based upon tariffs. It is also assumed that if a patient is treated over a period of time, the revenue would be booked across the time period rather than when the patient first comes in or when payments are made to the provider. Chapter 4 Annex 10 offers a worked example of such an approach for Maternity Pathways.</p>	Y
Community services income from CCGs and NHS England	Providers also provide community services that are funded. This is commonly community health providers or nurses that visit patients at home and in the area, also operated by CCGs.	Y
Private patient income	Particular top end and specialist hospital care can be accelerated for private patients. Primarily this relates to the delivery of services at a higher cost on the hospital premises but on different rates than the care activity income streams as above. Private patient contracts are not part of the Contract arrangements. Typically these align with teams leading the overseas patients billing. A proportion of the payments may be received upfront with the balance settled at a later date (i.e. where the volume of critical care etc. may not be known in advance) and so impacts on the timing of revenue may differ under IFRS 15 (depending on how income is booked today).	Y
Other clinical income	This income stream captures any other clinical work performed by a provider that is not captured in the above. This can include income obtained from overseas patients.	Y
Other operating income		
Research and development (R&D)	Hospitals can often perform R&D using grant income and funding to support the investigation into disease cures (cancer and other significant diseases are common areas of focus). Grant income is addressed by IAS 20 and does not fall within the scope of IFRS 15, however based on paragraph 4.48 of the GAM detailed assessment should be performed to identify any agreements where the new standard should be applied as significant amounts of this activity is derived from commercial arrangements.	Y/N
Education and training	Providers run specific courses and conferences that people will pay to attend, and support medical pathways for students with	Y

Revenue stream	IFRS 15 assessment	
	extra income generated by supporting universities with placements. This will enable income to be generated to cover the cost and if not begin to generate profits.	
Receipt of capital grants and donations	Upon refurbishment of old hospital buildings and development of new buildings, finance initiative schemes with third party developers are commonly put in place to generate the funding to pay for the capital works. Some income would be provided to help improve the infrastructure of hospitals. Grant income is addressed by IAS 20 and therefore does not fall within the scope of IFRS 15.	N
Charitable and other contributions to expenditure	It is common for donations to be received by providers through a charitable subsidiaries or one-off donations from the public to fund particular aspects of the hospital's activities. This may include a specific ward, research project or other expenditure. Non-exchange transactions fall outside the scope of IFRS 15 and should be addressed under IAS 20.	N
Non-patient care services to other bodies	This relates to the offering of administrative functions and support to other health or private bodies (for example, the provision of payroll and finance team functions from one provider to another resulting in a management recharge).	Y
Provider Sustainability Fund	The PSF enables NHS providers to earn income linked to the achievement of financial controls and performance targets. Access to both the general and targeted elements of PSF are unlocked as NHS providers meet their financial control totals. Providers should note the detail provided in paragraphs 4.61 to 4.70 of the GAM.	Y
Rental revenue from operating leases	<p>Lease contracts are scoped out of IFRS 15, and are instead accounted for under IAS 17/IFRS 16, "Leases". An arrangement between a lessor and a lessee under which property is leased, and additional services are provided by the lessor is bifurcated into two elements, so that IAS 17/IFRS 16 is applied to the lease income, and IFRS 15 is applied to the service revenue earned. The hierarchy applied is that IAS 17/IFRS 16 is applied first, and the residual is allocated to IFRS 15. Lessors shall allocate consideration in accordance with IFRS 15 on a fair value basis.</p> <p>Under sale and leaseback transactions, IFRS 15 is used to determine first whether or not a sale has occurred. Where this is not the case the transaction will be financing.</p>	N/Y

5. Impact of IFRS 15 on the NHS Standard Contract

The key areas of impact identified in relation to the Contract have been discussed in further detail within the subsequent sections of this paper.

5.1 Variable consideration

The objective of determining the total transaction price (i.e. expected elective income) in treating a patient as part of step 3 of IFRS 15 is to predict the amount of consideration to which a provider will be entitled to, including amounts that are variable. Where there is uncertainty over the expected income that will be generated from the provision of services to a patient, a provider should determine the probable total transaction price at the point of patient admission. This should include an estimate of any variable consideration and the entity reassesses this estimate at each reporting date. All reasonably available information should be utilized in making any estimates.

The likelihood and the impact of a range of services being provided would be incorporated into the initial transaction price at inception. The likelihood of the expected tariffs would be determined on a portfolio basis and incorporated into the initial price at the inception of a new contract. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Where the estimation would require a change based on unexpected changes compared to the initial estimation, this would require a contract modification. The subsequent sections provide further detail of scenarios where variable consideration could arise within the context of the Contract.

However, providers might struggle to calculate variable consideration in a range of cases because from an individual patient perspective the range/level of services which will be required and the associated revenue is not known at patient admission date/service start date. In this instance revenue would be recognised as these services are provided.

5.1.1 Multiple tariff elements

Whether there is any variability is dependent on how tariffs are structured, for example:

- One tariff for multiple services (e.g. surgery and follow up appointments)
- One tariff for each individual services (e.g. one tariff for surgery and one for each follow up appointments)

If accounting for tariffs currently follows point 1, then differences under IFRS 15 could arise. A set tariff comprising of multiple elements (i.e. surgery and follow up appointments) can have an element of variability where there is uncertainty over the volume of service which will be provided under the single tariff. For example, some patients may have a significantly higher volume of follow up appointments while the tariff remains the same. If there are instances where tariffs received from the commissioner are structured in such a way that there is one single tariff applied (comprising the surgery cost and an estimated number of average follow up

appointments based on typical experience), any individual follow up appointment exceeding initial expectations covered by the initial tariff would result in a greater level of services being provided. The provision of additional services beyond initial expectation would be treated as a retrospective “contract modification” because the level of service has increased while the price has remained the same (if material). If there is an increase in level of services and tariff then this would need to be treated as a prospective contract modification.

If outpatient follow-up appointments are recognised as separate attendances and providers receive income / tariffs for these separately for example on a monthly basis (as per point 2), then the accounting treatment would likely cause no differences under IFRS 15, because these are implicitly already being treated as separate performance obligations. With some services (for example, Audiology and other pathway type services such as Cystic Fibrosis) providers may currently choose to bundle care together and agree a ‘package’ type approach. On this basis there may be an annual local tariff which is paid in twelfths to the provider based on number of patients. Where surgery is performed on a patient and they subsequently received post-surgery treatment comprising multiple follow up appointments, no IFRS 15 adjustments are required if an individual tariff is allocated to each individual component (i.e. each individual follow up appointment following surgery).

In particular, Critical Care activity forms part of the annual activity plan which is part of the provider’s contracts with commissioners. The planned amount will be determined for the year and paid to the provider, with subsequent adjustments for under/over performance in line with the national reporting requirements. Where Critical Care is provided, tariffs are structured on a bed day basis as determined by Healthcare Resource Groups (“HRG”) with a local price. This payment is in addition to the baseline Critical Care payments which is based on planned activity as agreed between the commissioner and provider.

In these situations, there is a gain/loss share arrangement on the basis that many of the Critical Care costs can be viewed as fixed or semi fixed and uncertainty over actual payment the principle of variable consideration applies. If a provider’s activity in a year is less than planned, they will lose only 80% of the value of the under-delivered activity. If a provider performs more activity than initially planned payments are only at 80% of the cost per unit as agreed in the initial plan. The level of service provided in a period could therefore result in instances where the average tariff per patient is either higher or lower than the standalone tariff. Assessments should therefore be made on a periodic basis to determine whether the variability of average tariffs per patient receiving Critical Care could have a material impact on total income being recognised within a financial reporting period to avoid revenue being either overstated or understated.

Some trusts may agree more bespoke local arrangements which are not all addressed within this paper. However, when determining the appropriate accounting treatment, the principles of variable consideration and creating a best estimate should be considered.

5.1.2 Variable payments through quality sanctions and Commissioning for Quality and Innovation (“CQUIN”) payments

Variable consideration can take various forms, including (but not limited to) credits, incentives, performance bonuses, and royalties. A provider's past practices can cause consideration to be variable if there is a history of amounts being received which are contingent upon meeting certain performance goals or deadlines. Where CQUIN payments are anticipated or where amounts may need to be paid by a provider in respect of breached sanction or quality checks, this can create variability in income which would need to be considered and estimated at the start of a financial reporting period.

The expected value method which uses the sum of probability-weighted amounts in a range of possible consideration amounts can be used in determining the expected transaction price reflecting the consideration to which the provider will be entitled for the work performed (IFRS 15:53a). These amounts should only be included within the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved (IFRS 15.56).

As an alternative approach, the most likely amount method can also be used to estimate variable consideration based on the single most likely amount in a range of possible consideration amounts. This method might be the most predictive if a body will receive one of only two (or a small number of) possible amounts where there are a small number of outcomes (IFRS 15:53b).

In relation to quality checks or sanctions where targets are not met by a provider and penalty costs are incurred, a reduction in income should be recognised at the point of inception. The reductions in income from commissioners are currently based on actual data and recognised in the same period where the penalties are incurred. Given that penalties are recognised in the same period as incurred there is no timing impact to revenue recognition under IFRS 15, although classification within the income statement could change if amounts were previously reflected within expenses rather than against income.

At year end providers should make an adjustment to accrue for expected penalties; for example, a penalty based on performance against a quality metric and the provider knows they have not met it at the year-end (rather than waiting for the commissioner to validate the information and raise the penalty in the next financial year). Rather than recognising the penalties as a bad debt provision for the expected loss, a reduction of income should be shown.

Variability in revenue can also arise from CQUIN payments which form part of the national quality incentive scheme. These represent payments from commissioners to providers which are conditional on a provider demonstrating improvements in quality and innovation in specified areas of care. Depending on provider performance, the CQUIN scheme is worth a maximum of 2.5%, payable in addition to the Actual Annual Value ("AAV"). The AAV is the aggregate of all payments made to the provider for services delivered under a specific contract during the contract year, not including CQUIN and other incentive payments, and after any deductions or withholdings, subject to certain exclusions (i.e. high cost drug pass through payments).

The 2.5% payable depending on performance is split as follows:

- Up to 1.5% of the scheme is assigned to the clinical and transformational indicators. Each national indicator has a minimum weighting of 0.25%,
- Up to 1% of the scheme is assigned to support local areas e.g. contribution to the STP.

Currently a commissioner and provider may agree a schedule of payments at the start of a contract year to be made during the relevant contract year based on expectation of the provider satisfying the CQUIN indicators. These amounts are then reconciled with the actual CQUIN payment due and these are paid either monthly or quarterly.

Within the context of IFRS 15, CQUIN payments do not represent distinct performance obligations therefore the income arising on these payments should be recognised in a pattern that reflects the fulfilment of the performance obligations on which the CQUIN payments are contingent. Subject to the principle that there must be a high probability that income will not reverse, at the start of a contract year an estimate of the expected CQUIN payments should be made and the income recognised as the obligations within the contract are fulfilled. Where obligations have been fulfilled but CQUIN payments have not been received, a contract asset will arise which represents the difference between the income recognised and the anticipated balance to be received from the commissioner. Note that if receipt is solely conditional on the passage of time a contract receivable will be recognised rather than a contract asset.

5.1.3 Portfolio approach and variable consideration

IFRS 15 requires application of the 5-step model to single contracts (contract-by-contract approach). A portfolio approach might be acceptably employed as a practical expedient, if a provider reasonably expects that the effect of applying a portfolio approach to a group of patients requiring treatment would not differ materially from considering each patient separately. A provider should use estimates and assumptions that reflect the size and composition of the portfolio when using a portfolio approach. As an example, where mental healthcare is provided and healthcare episodes extend to full life term with individuals accessing multiple care packages over time, providers do not currently generate income on an individual level of activity. Instead, a provider is commissioned for a range of services to be delivered in a period of time to agreed activity levels.

A provider can decide to use the patient-by-patient approach as a default position but IFRS 15 also allows the use of the portfolio approach in circumstances (e.g. data is not available on a patient-by-patient basis) in which the provider considers the application of such an approach would not lead to materially different results, as applying IFRS 15 to individual contracts. It is considered that this provides a pragmatic way to apply IFRS 15 in business environments that generate a large number of similar contracts for which separate application of the five step model would prove impractical (IFRS 15. BC 69 – 70).

The expected value method estimates variable consideration based on the range of possible outcomes and the probabilities of each outcome. This may be appropriate where a provider has a large number of patients receiving care that is broadly similar and spans a similar period of time. The estimate is the probability-weighted amount based on those ranges. In relation to the

example of providing mental healthcare services, portfolios of patients could be grouped together based on expected length of treatment/type of treatment to determine average expected income across a number of patients.

A provider must, in theory, consider and quantify all possible outcomes when using the expected value method however a limited number of discrete outcomes and probabilities can also provide a reasonable estimate of the distribution of possible outcomes in many cases. A provider can consider evidence from previous experiences of different groups of patients by using a “portfolio of data” to develop an estimate and recognise revenue on this basis.

5.2 Partially satisfied performance obligations

5.2.1 Contracts lasting more than one year

Complexities arise under IFRS 15 in relation to long term contracts (exceeding one year) which involve the integration of services using multi-speciality community provider (MCP) contracts, primary and acute care system (PAS) contracts and alliance contracts. Where there are patients receiving long term care spanning multiple reporting periods, IFRS 15 requires information about the transaction price allocated to unsatisfied performance obligations at year end and when revenue will be recognised in relation to these obligations.

This could require judgment, as it might not always be clear when performance obligations will be satisfied, especially when performance can be affected by factors outside a provider’s control. Providers should explain whether any amounts have been excluded from the transaction price and therefore excluded from the disclosure, such as variable consideration that has been constrained.

IFRS 15 also requires disclosure of qualitative information about the amount of transaction price allocated to unsatisfied (or partially unsatisfied performance obligations), and either a quantitative or qualitative explanation of when the amount will be recognised as revenue (IFRS 15.120). As such, providers may need to alter the information they collect to meet the disclosure requirements regarding remaining performance obligations. Two examples of partially satisfied performance obligations include (but are not limited to) incomplete spells and readmissions – but providers should remember that this disclosure only relates to contracts that last for more than one year.

5.2.2 Incomplete spells

Issue arise with partially completed spells as the performance obligations may not be completed during the spell. Where a spell is incomplete, an estimate should be made at contract inception to determine the expected life of the spell. This can be performed by creating portfolios of different types of patients based on certain characteristics to determine the estimated spell period. Revenue should be recognised evenly as the services are delivered and deferred at year end to the extent additional services are anticipated under the initial tariff received. Where tariffs are not received at the end of a reporting period but services have been delivered, a

contract asset or contract receivable (if the entity's right to the consideration is unconditional - if only the passage of time is required before payment is made) is recognised.

Under IFRS 15 the accounting treatment for incomplete spells (where the tariff has been received upfront by the provider but the full service has not been provided as at year end) should equally result in recognition of revenue reflecting the fair value of services which have been provided, along with the recognition of a contract liability on the balance sheet for services still to be provided where consideration has been received.

This may have an IFRS 15 transition impact. For bodies not recognising deferred income as at year end, under IFRS 15 there would be a requirement to reduce the revenue recognised in the initial financial reporting period, accompanied by a contract liability on the Balance Sheet which represents the deferral of revenue for services to be provided.

As an illustrative example, where there are multiple steps under the Maternity Pathway, each has its own individual tariff with three separate elements which are antenatal, delivery and postnatal. For each stage, a woman chooses her pathway provider, identified as the 'lead provider'. The commissioner makes a single payment to the lead provider of each stage to cover the cost of care, the level of which depends on clinical factors that affect the extent and intensity of care a woman is expected to need. Where there is an incomplete spell at year end, an element of this tariff will need to be deferred as a contract liability and recognised in the following reporting period where the pathway is completed. If determined to be material for a provider, this would be disclosed as a contract liability (formerly deferred income) representing the allocated amount of tariff where services have not yet been fully provided.

5.2.3 Readmissions

Commissioners do not pay tariffs for emergency readmissions which occur within 30 days of discharge from initial planned stay. Readmission rates range between 3-11% for providers with an average cost of 6.6%. An emergency readmission is any readmission that:

- a) happens up to 30 days from discharge from initial admission;
- b) has an emergency admission method code 85; and
- c) has a national price.

It is usual practice for providers to calculate the readmissions threshold and then for an adjustment to be made within the contract baseline value. This is often rolled forward as part of contract baselines unless commissioners wish to re-audit (i.e. to clinically review a sample of readmissions to determine the proportion that could have been avoided). Providers usually monitor actual performance against this to assess operational performance.

Revenue under IFRS 15 should be recognised in a pattern that reflects the transfer of control of the promised good or service to the customer. Where there is uncertainty over whether a performance obligation has been completely satisfied at the end of a financial reporting period as a result of anticipated readmission rate, an element of revenue should be deferred as a contract liability and this should also encompass any potential readmissions which may arise at the end of a financial reporting period.

5.3 NHS activity outside of contract with lead commissioner

Service Condition 6.6 of the NHS Standard Contract sets out that a provider must accept a clinically appropriate referral of an individual whose responsible commissioner is not a party to the contract and, where safe to do so, accept a referral or presentation for emergency treatment by an individual whose responsible commissioner is not a party to the contract. The Standard Contract refers to the NHS England Who Pays guidance to cover responsibility for payments to providers. This document sets out CCGs' responsibility for commissioning health services for their patients and in particular (paragraph 41) sets out authority for providers to treat patients under non-contracted arrangements and the requirement for commissioners to pay for such activity. Such non-contracted income should therefore be considered as revenue under contract under IFRS 15. This is consistent with paragraph 4.48 of the GAM 2018/19 which states that the definition of a contract is expanded to include legislation and regulations which enables an entity to receive cash or another financial asset where this is not classified as a tax. The Who Pays guidance also defines the responsible commissioner for patients from Scotland, Wales and Northern Ireland and the same conclusion is expected to apply.

5.4 Bad debts

IFRS 15 requires that it should be probable that a provider is able to collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer [IFRS 15.9(e)]. For example, for overseas patients, hospitals often provide emergency services to uninsured patients without having certainty over the ability to collect their fees. Therefore, assessment will be required to determine whether they meet the criteria for revenue.

In order to recognise revenue, the collection of consideration needs to be probable. Income cannot be recognised unless payment is probable. The threshold of probability should be assessed within the context of customer collectability (step 1 of IFRS 15).

A provider should evaluate the contract asset or receivable for impairment under IFRS 9. The impact of this treatment will be seen in the operating expense profile, where there will be an expense recognised in respect of any expected losses booked against receivables and/or contract assets.

Bad debts can also arise in relation to contractual disputes between a CCG and a provider. Specifically, this can occur in relation to local commissioners where non-contracted activity arises (i.e. commissioners where the provider has no contract and cross-border commissioners).

While a bad debt should not technically arise between different NHS bodies, Contracts with commissioners are technically enforceable in a court of law. The DHSC provides a guarantee of last resort against the debts of between group bodies and so providers must not recognise stage-1 (12 month expected credit losses) and stage-2 (lifetime expected credit losses)

impairments against the DHSC or NHS bodies. Furthermore, DHSC group bodies should not normally recognise stage-3 impairments (objective evidence of impairment) for receivables due from other DHSC group bodies, as such amounts are not expected to be irrecoverable.

5.5 Subcontractors

A body that is a principal in a contract may satisfy a performance obligation by itself or it may engage another party (a subcontractor) to satisfy some of or all of a performance obligation on its behalf. When a provider that is a principal satisfies a performance obligation, the provider recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred.

A provider could be an agent if the provider’s performance obligation is to arrange for the provision of goods or services by another party. When a provider that is an agent (and where the subcontractor is principal in delivering a service) satisfies a performance obligation, the provider recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services. A provider’s fee or commission might be the net amount of consideration that the provider retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

Such subcontracts could include contracts entered into by the provider or by its subcontractors with providers of clinical services (often known as “provider-to-provider” contracts), clinical support services, and goods and equipment on which the provider or the sub-contract relies in order to be able to deliver the services in accordance with the contract entered into with the commissioners.

Subcontracting does not relieve a provider from responsibility for delivery of the services and for the performance of all of the obligations on its part under the contract. Failure on the part of a subcontractor does not excuse the provider from its obligations to the commissioners.

In order to form a clear conclusion analysis will be required to determine which party is acting as principal on a case by case basis. See the considerations below:

Criteria	Comments and potential questions
Fulfilment	<ul style="list-style-type: none"> • Who is primarily responsible for fulfilling the obligations of the contract, such as patient care, resolving patient complaints, and accepting responsibility for the quality or suitability of the service delivered? • If there is an issue with a patient’s treatment, who do they look to get resolution? • As per section 38.4 of the Contract 2018/19 Technical Guidance, a provider is not relieved of their responsibilities when some of the obligations are performed under a sub-contract. This suggests that the provider would remain primarily responsible for fulfilment and therefore acting as principal.

Inventory risk	<ul style="list-style-type: none"> • Does a provider have inventory risk before the specified good or service has been transferred to a patient or after transfer of control to the patient? • Non-cancellable purchase commitments and certain type of guarantees might expose a provider to inventory risk if the provider bears the risk of not being able to utilise the inventory • A provider might have inventory risk in a subcontractor arrangement if it is committed to pay the subcontractor even if the provider is unable to identify a patient to utilise the service.
Pricing	<ul style="list-style-type: none"> • Can a provider adjust the tariff for subcontracted services vs being fixed? • Who determines the tariff structure for subcontracted services? If the Department of Health supports more tariff price discretion on subcontracted arrangements, potentially.

Occasionally GP's 'with a special interest' may do work on behalf of a provider where the provider would record this activity, receive the income and then reimburse the GP for their time. Similarly the above principles would need to be applied to determine whether a provider should recognise this income on a net or gross basis.

This could be a significant issue for most bodies using subcontractors and so should be analysed for each individual scenario using the guidance above.

6. Application of the FReM

As detailed in Chapter 6 of the FReM and paragraph 4.47 of the GAM, there are adaptations and interpretations which must be applied to public-sector bodies applying IFRS 15.

This paper addresses the impact of IFRS 15 on the Contract and the below table therefore considers the impact of the adaptations and interpretations specifically in relation to the Contract. The analysis of the adaptations and interpretations does not extend to any other revenue streams. Any revenue streams outside the scope of the Contract would need to be assessed separately within the context of the FReM adaptations to determine whether IFRS 15 should be applied. If concluded that additional revenue streams are in the scope of IFRS 15 as a result of the adaptations, the IFRS 15 5 steps model as discussed in section 3 of this paper should be applied.

FReM type	Description of adaptation/interpretation	Application for providers under the Contract
Adaptation	The definition of a contract is expanded to include legislation and regulations which enables an entity to receive cash or another financial asset that is not classified as a tax by the Office of National Statistics. The costs of preparing the legislation or regulations does not amount to assets under IFRS 15 (91-94).	Limited or no applicability as a contract is already in place
Adaptation	Where by statute or Treasury consent, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be treated as arising from a contract and accounted for under IFRS 15 (15a).	Not applicable within the context of the Contract.
Interpretation	Upon transition, the following accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn. All entities applying the FReM shall recognise the difference between the previous carrying amount and the carrying amount at the beginning on the annual reporting period that includes the date of initial application in the opening general fund within	Refer to analysis within section 7 of this paper for the interpretation and transition guidance in the wider context of the external reporting requirements (where the partial retrospective method of transition is applied).

	<p>taxpayers' equity (or other component of equity, as appropriate) per IFRS 15 C3(b).</p> <p>In using this transition approach:</p> <ul style="list-style-type: none"> • The election to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application should be exercised. • The practical expedient available for contract modifications should be exercised. Paragraph C7A of IFRS 15 removes the need to retrospectively restate any contract modifications that either occurred before the beginning of the earliest period presented, or for all modifications occurring before the date of initial application. 	
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There are several considerations to evaluate as part of the transition from IAS 11 and IAS 18 to IFRS 15. These include the transition arrangements around retrospective application (and the associated reliefs) and disclosure considerations.

The date of initial application is the date when an entity first applies the transition requirements of IFRS 15 and must be the beginning of a reporting period after the standard is issued. For the wider public sector organisations, this is 1 April 2018. Organisations should have made certain key assessments by this date, including:

- Identifying which contracts are in scope of IFRS 15 including confirmation that the revenue meets the definition of sales of goods and services per classification of public receipts;
- Determining which of these contracts need restating and the information needed to restate them. This may include identifying any individually significant contracts that should be assessed separately, or subpopulations of contracts with similar characteristics that can be evaluated in aggregate;
- Identifying the outstanding performance obligations associated with contracts still open as at the beginning of the reporting period;
- Determining appropriate methodologies to allocate the transaction price to performance obligations;

- Consideration of any impairments required in conjunction with the introduction of IFRS 9 Financial Instruments; and
- Consideration of which disclosure requirements are material and where the necessary information is held to provide sufficient disclosures.

Any amendments to the GAM in the future need to be taken into consideration by the reader alongside this paper.

7. Disclosure requirements

IFRS 15 replaces all previous revenue guidance and establishes a single 5-step model for revenue recognition. Alongside these changes are requirements to enhance disclosures. These present the need for robust controls to process and capture the required data to ensure the reported numbers are accurate, complete and reliable.

IFRS 15 is effective from 1 January 2018 (for public sector 1 April 2018) and offers the following two options for transition:

- Full retrospective application - restating comparatives fully in accordance with IAS 8; or
- Modified retrospective application – showing the cumulative effect of initially applying IFRS 15 in the opening general fund within taxpayers' equity (or other component of equity, as appropriate)

An interpretation has been made for public sector reporters, where the accounting policy choice to retrospectively restate upon transition in accordance with IAS 8 has been withdrawn. In using this transition approach:

- The election to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application should be exercised.
- The practical expedient available for contract modifications (C7A) should be exercised.

This paper provides commentary on the disclosures required under the modified retrospective approaches to transition. Specific disclosures may not be required if the information resulting from that disclosure is immaterial. As with all disclosures, care should be taken to not impair the understandable nature of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures and functions. The key disclosure impacts have been highlighted in the subsequent sections of this paper.

As an appropriate application of IFRS 15 disclosure requirements have been constructed within the Trust Account Consolidation (TAC) schedules the following detail should be considered as further information only.

7.1 Statement of Comprehensive Income

7.1.1 Presentation of revenue

Each income stream may either be split out on the face of the income statement, or disclosed in the notes to the financial statements. The format contained in the Trust Accounts Consolidation (TAC) schedules and accounts template issued by NHS Improvement will assist providers in meeting this requirement.

7.1.2 Operating expense profiles

Operating expense profiles are likely to change. IFRS 15 may result in changes to the amount and timing of revenue recognition. As such, the related costs may also have to be reclassified into different accounting periods.

Impairment losses arising from impairments of contract receivables would also be presented separately from impairment losses from other types of receivables, and are not recorded as a reduction of income.

7.2 Statement of Financial Position

7.2.1 Presentation of contract assets or contract liabilities in the Balance Sheet

A provider shall present a contract on the Statement of Financial Position when either party to the contract has performed an appropriately recognisable action. Per IFRS 15 this could entail the identification of contract assets, liabilities or receivables (IFRS 15.105)

A contract asset or contract receivable may arise where services or goods are provided to a patient in advance of receiving consideration. A contract receivable is recognised when the seller’s right to consideration is unconditional. An unconditional right to consideration can arise on the date a payment is due even though the associated performance obligation has not yet been performed. A contract asset is recognised when the seller’s right to consideration depends on something other than the passage of time: for example if the seller does not get paid for its delivery of good 1 until it has also delivered good 2, which remains outstanding. Given the analysis earlier in this paper for the Contract, it is unlikely that a contract asset will be recognised for the body as most outstanding balances relate to timing differences and will therefore be reflected as contract receivables.

A contract liability is recognised if consideration is received in advance of performance (for example a non-refundable upfront fee). A contract liability represents the obligation to transfer goods or services to a patient for consideration has been received (or an amount of consideration is due) from the paying party. The format contained in the Trust Accounts Consolidation (TAC) schedules and accounts template issued by NHS Improvement will assist providers in meeting these requirements.

An example of how this disclosure may be structured is provided below:

ASSETS	2019	2018
	£’000	£’000
Current assets		
Trade and other receivables		
Contract assets	xxx	xxx
Non-current assets		
Trade and other receivables		
Contract assets	xxx	xxx
LIABILITIES	2019	2018

	£'000	£'000
Current liabilities		
Trade and other payables		
Contract liabilities	xxx	xxx
Non-current liabilities		
Trade and other payables		
Contract liabilities	xxx	xxx
Provisions		

IFRS 15 does not require contract assets or contract liabilities to be referred to as such or presented separately in the Balance Sheet as presented above. This is as long as sufficient information is provided to the users of financial statements allowing them to distinguish them from other items (IFRS 15.105-109 and IFRS 15.BC320-BC321).

7.3 Income and expenditure reserves

7.3.1 Modified retrospective approach

When applying the modified retrospective approach on transition, the cumulative effect of adopting IFRS 15 should be presented in opening income and expenditure reserves and there will be no other adjustments required to other line items within the financial statements. An example of how this disclosure may be structured under the modified retrospective approach is provided below:

	Income and expenditure reserves £'000	Total £'000
As at 31 March 2018	xxx	xxx
Impact of adoption of IFRS 15	(xxx)	(xxx)
As at 31 March 2018	xxx	xxx
Income/(expenditure) for the year	xxx	xxx
Other comprehensive income	xxx	xxx

Under the modified retrospective approach no restatement of prior period numbers is required. Under this approach, IFRS 15 may be applied retrospectively only to contracts that are not completed at the date of initial application (IFRS 15.C3(b) and IFRS 15.C7).

Refer to section 7.5.7 for other examples of the reconciliation disclosures required for the modified retrospective transition method.

7.4 Statement of Cash Flows

No significant presentational changes are likely to be required to the face of the statement of cash flows on adoption of IFRS 15. However, it is likely that some minor changes may be

appropriate to reflect changes in contract-related costs and contract liabilities. An example of how this disclosure may be structured is provided below:

	Note	2019 £'000	2018 £'000
Operating activities			
Operating surplus			xxx
Adjustments for:			
Amortisation, depreciation and impairments	x		xxx
Net interest expense	x		xxx
Income tax expenses	x		xxx
Other non-cash items	x		xxx
Cash flow from operations before changes in working capital			xxx
Change in inventories	x		
Change in trade and other receivables	x		xxx
(Increase)/decrease in contract assets	x	xxx	
(Increase)/decrease in contract-related costs	x	xxx	
Change in trade and other payables	x		xxx
Increase/(decrease) in contract liabilities	x	xxx	
Total change in working capital			xxx
Change in provisions	x		(xxx)
Cash flow from operations			xxx
Interest paid	x		(xxx)
Interest received	x		xxx
Cash flow related to financing activities			(xxx)
Cash flow from operating activities			xxx

7.5 Notes to the Accounts - Significant Accounting Policies

7.5.1 The accounting policy for revenue will need to be updated to reflect the requirements of IFRS 15

The accounting policy will need to be fully tailored to include information about relative performance obligations. This information should include a description of:

- i. when the provider typically satisfies its performance obligations (either at a point in time or over time);
- ii. the significant payment terms;
- iii. the nature of the goods or services provided;
- iv. obligations for refunds or returns and other similar obligations; and
- v. types of warranties and related obligations.

Other areas to disclose can include judgements where there are multiple components to be delivered under a single patient arrangement and any judgements relating to termination or extension clauses (if applicable) (IFRS 15.119).

Under the modified retrospective approach of transition, the previous revenue accounting policies will still need to remain disclosed in the financial statements. As the comparative figures will still be prepared under previous revenue accounting standards under this approach, the prior period revenue accounting policies will continue to be required.

7.5.2 Practical expedients

Certain practical expedients are available on transition if the modified retrospective method is selected. Specifically, for contracts that were modified before the beginning of the earliest period presented, a provider need not retrospectively restate the contract for those contract modifications, but shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

- a) identifying the satisfied and unsatisfied performance obligations;
- b) determining the transaction price; and
- c) allocating the transaction price to the satisfied and unsatisfied performance obligations.

This practical expedient is either for all contract modifications that occur before the beginning of the earliest period presented or for all contract modifications that occur before the date of initial application. Further practical expedients that exist under IFRS 15, irrespective of the transition method used, are given in sections 7.5.3 and 7.8.1.

If using these practical expedients, this fact must be disclosed in the financial statements. An example of how this may be structured is provided below. In addition, to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of these expedients must also be given (IFRS 15.C5, C6 and C7A).

Practical expedients

The provider has elected to make use of the following practical expedients:

- i) Completed contracts under IAS 11 and IAS 18 before the date of transition have not been restated;
- ii) The transaction price at the date that contracts with variable consideration were completed has been used as the revenue amount in the comparative reporting periods;
- iii) The provider also applies the practical expedient in paragraph C5(d) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the provider expects to recognise that amount as revenue for the year;
- iv) No restatements have been made for modifications of contracts that occurred before the beginning of the earliest period presented. The aggregate effect of these modifications has

- however been presented when identifying satisfied and unsatisfied performance obligations, and determining and allocation of the transaction price to these obligations; and
- v) Contract cost incurred related to contracts with an amortisation period of less than one year have been expensed as incurred.

7.5.3 Consideration of the time value of money on revenue from contracts with customers may be disregarded in certain circumstances

The time value of money may be disregarded if the period between transfer of the goods or services and payment is less than one year, even if the contract itself is for more than one year (IFRS 15.63 and IFRS 15.129).

This practical expedient exists for all entities and when elected, a disclosure stating this fact is required. An example of how this disclosure may be structured is provided below:

The provider does not expect to have any contracts where the period between the transfer of the promised goods or services to the patient and payment by the commissioner exceeds one year. As a consequence, the provider does not adjust any of the transaction prices for the time value of money.

This is an expedient that can be employed where significant finance exists as a component of a contract (IFRS 15. 60 to 65). This exists where the timing of payments agreed to provides a significant benefit of financing the transfer of goods for the customer.

The Standard identifies a number of scenarios in which a contract does not contain a significant financing component (IFRS15.62) such as where the difference between consideration and cash selling price is for reasons other than the provision of finance. It is not anticipated that financing components will be significant to many contracts for providers (IFRS15.61).

7.5.4 Initial application of IFRS 15

On initial application of IFRS 15, where there is any effect on the current period, IAS 8 requires certain disclosures (IAS 8.28 and IFRS 15.C4 and C8). These disclosures are:

- i) the title of the new IFRS standard being applied;
- ii) when applicable, the change in accounting policy made in accordance with its transitional provisions;
- iii) the nature of change in accounting policy;
- iv) when applicable, a description of the transitional provisions;
- v) when applicable, the transitional provisions that may have an effect on future periods;
- vi) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and
- vii) the amount of the adjustment relating to periods before those presented, to the extent practicable.

Illustrative examples of how these disclosures may be structured when adopting IFRS 15 are provided in sections 7.5.5 to 7.5.9. A version of this tailored for providers will be available in NHS Improvement's example accounts template.

7.5.5 Basis of preparation

Accounting policies should be updated to reflect the adoption of IFRS 15 in respect of the basis of preparation (IAS 8.28 and IFRS 15.C3). An example of how this disclosure may be structured from the PwC illustrative accounts is provided below:

New and amended standards adopted by the provider

The provider has elected to apply *IFRS 15 Revenue from Contracts with Customers* as issued in May 2014. In accordance with the transition provisions in IFRS 15 the new rules have been adopted retrospectively with the cumulative effect of initially applying this Standard as an adjustment to the opening balance of income and expenditure reserves. See note x below for further details on the impact of the change in accounting policy.

7.5.6 Changes made to the accounting policies

Detailed changes made to the accounting policies need to be explained in the financial statements (IAS 8.28).

7.5.7 Reconciliation under the modified retrospective method

Under the modified retrospective transition method, a reconciliation is required between the current period figures and any adjustments made for each financial line item affected. An example of how this disclosure may be structured under the modified retrospective approach is provided below. The format contained in the Trust Accounts Consolidation (TAC) schedules and accounts template issued by NHS Improvement will assist providers in meeting this requirement.

Consolidated Income Statement		2019			2018
	Notes	Post IFRS 15 £'000	Adjustments £'000	Pre IFRS 15 £'000	£'000
Income	x	xxx	(xxx)	xxx	xxx
Operating surplus		xxx	(xxx)	xxx	xxx
Finance income	x	xxx	-	xxx	xxx
Finance costs	x	(xxx)	-	(xxx)	(xxx)
Surplus before tax		xxx	(xxx)	xxx	xxx

Income tax expense	x	(xxx)	(xxx)	(xxx)	(xxx)
Surplus for the year		xxx	(xxx)	xxx	xxx
Consolidated Balance Sheet					
			2019		2018
		Post IFRS 15	Adjustments	Pre IFRS 15	
		£'000	£'000	£'000	£'000
	Notes				
ASSETS					
Non-current assets					
Intangible assets	x	xxx	-	xxx	xxx
Property, plant and equipment	x	xxx	-	xxx	xxx
Trade and other receivables	x	xxx	(xxx)	xxx	xxx
Contract-related costs	x	xxx	xxx	-	-
Current assets					
Trade and other receivables	x	xxx	(xxx)	xxx	xxx
Contract-related costs	x	xxx	xxx	-	-
LIABILITIES					
Current liabilities					
Trade and other payables	x	(xxx)	xxx	(xxx)	(xxx)
Contract liabilities	x	(xxx)	(xxx)	-	-
Non-current liabilities					
Trade and other payables	x	(xxx)	xxx	(xxx)	(xxx)
Contract liabilities	x	(xxx)	(xxx)	-	-
Provisions	x	(xxx)	-	(xxx)	(xxx)

Similar disclosures are also likely to be required, showing adjustments made to the statement of other comprehensive income, statement of changes in equity and the statement of cash flows, alongside an explanation of the reasons for any significant changes (IAS 8.28(f) and IFRS 15.C3(b), C7, and C8).

7.5.8 Specific disclosures in relation to judgements

IFRS 15 requires specific disclosures in relation to judgements made in applying the standard (IFRS 15.123-127) where material. The disclosure in connection with judgements will need to be fully tailored to individual circumstances and include specific information about the following:

- i. Performance obligations over time - the methods used to recognise revenue and an explanation of why the methods used provide a faithful depiction of the transfer of goods and services;

- ii. Performance obligations at a point in time - significant judgements made in evaluating when a patient obtains control of promised goods or services;
- iii. Determining transaction prices and amounts allocated to performance obligations - Information on methods, inputs, and assumptions which are used for all of the following:
- iv. Determining the transaction price;
 - a. assessing whether an estimate of variable consideration is constrained;
 - b. allocating the transaction price;
 - c. and measuring obligations for returns, refunds and other similar obligations; and
- v. Determining the amount of costs incurred to obtain or fulfil a contract and the method used to determine the amortisation for each reporting period.

7.5.9 The timing of performance obligations versus payments

The relationship between the timing of the satisfaction of its performance obligations and the typical timing of payments must be disclosed. An explanation of how these two timings relate to each other is required, along with the effect those factors have on the contract asset and contract liability balances (IFRS 15.117).

An example of how this disclosure may be structured is provided below:

A receivable is recognised when the services are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

7.6 Notes to the accounts - Disaggregated revenue

Revenue from contracts with customers should be shown separately from other sources of revenue (IFRS 15.113(a)). Disclosure is permitted on the face of the income statement or in the notes to the financial statements. An example of how this disclosure may be structured is provided below:

Income from contracts with customers			
The provider has recognised the following amounts relating to revenue in the statement of comprehensive income:			
	Notes	2019	2018
		£'000	£'000
Income from contracts with customers		xxx	xxx
Income from other sources: Rental and sub-lease rental income		xxx	xxx
Total income		xxx	xxx

Revenue from contracts with customers must be disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and the related cash flows are effected by economic factors (IFRS 15.114-115). The format contained in the Trust Accounts Consolidation

(TAC) schedules and accounts template issued by NHS Improvement will assist providers in meeting this requirement.

These categories are likely to resemble (but are not limited to) the categories that would be used in segmental reporting under IFRS 8 Operating Segments. While the standard does not prescribe specific categories for disaggregation, potential categories can include:

- Income by service.
- Income from patient care by nature.
- Non-patient income.

Further guidance on selecting the type of category (or categories) to use to disaggregate revenue is given in paragraphs B88 and B89 of IFRS 15.

The provider’s disclosure under IFRS 8 Operating Segments must provide sufficient information to enable users to understand the relationship between the disclosure of disaggregated revenue and the reportable segment revenue information disclosed for each reportable segment. In financial reporting periods where both the 2018/19 balances and comparative balances are reporting under IFRS 15, disclosures of the disaggregation for both reporting periods will be required. Therefore, for the financial reporting period ending 31 March 2019, disaggregation of revenue will be required for both the period ended 31 March 2018 and the year ended 31 March 2019.

An example of how these disclosures may be structured is provided below:

‘The provider derives income from the transfer of goods and services over time and at a point in time in the following major activities:’	
2019 £’000	Total
Elective Income	xxx
Non-elective Income	xxx
Outpatient Income	xxx
A&E Income	xxx
Other NHS Clinical Income	xxx
Community Services	xxx
Private Patient Income	xxx
Other Clinical Income	xxx
Total Income	xxx
<i>Recognised over time</i>	xxx
<i>Recognised at point in time</i>	xxx

7.7 Notes to the accounts - Reconciliation of Contract Balances

7.7.1 New disclosures for contract liability balances are required

A provider shall disclose the opening and closing balances of contract assets and contract liabilities, if not otherwise separately presented or disclosed. An example of how these disclosures may be structured is provided below:

Contract assets and liabilities			
The provider has recognised the following contract assets and liabilities			
	Notes	2019	2018
		£'000	£'000
Contract assets	x	xxx	xxx
Total contract assets		xxx	xxx
Contract liabilities – deferred income	x	xxx	xxx
Contract liabilities – other	x	xxx	xxx
Total contract liabilities		xxx	xxx

Where the provider has contract receivables (unconditional rights to consideration, which is where only a passage of time is required before payment is due) these are required to be presented separately from other receivables.

Where a provider receives, or has the right to receive consideration before the provider transfers the goods or services to the patient, the provider presents a contract liability at the earlier of either receiving payment or when the payment is due. If the provider performs by transferring goods or services before receiving, or having the right to receive consideration from the commissioner, the provider must present the contract as a contract asset, excluding any amounts presented as a receivable (IFRS 15.105-108 and 116(a)).

7.7.2 Reconciliation of contract balances

The purpose of these contract balance disclosures is to provide users of the financial statements information about the amount of revenue that is recognised in the current period that is not a result of current period performance. Required information includes:

- The opening and closing balances of receivables, contract assets, and contract liabilities;
- Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and
- Revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.

Disclosure of qualitative and quantitative information is also required where there are any significant changes in a provider's balances of contract assets and contract liabilities arising as a result of changes due to transfers of functions; impairment of a contract assets; change in the time frame for a right to consideration to become unconditional; a change in the time frame for a performance obligation to be satisfied; and cumulative catch-up adjustments arising as a result of contract modifications.

For revenue contracts, revenue-related contract assets and liabilities can be disclosed as follows:

Contract assets balance roll forward

	2019 £'000	2018 £'000
Contract assets as at 1 April 2018	xxx	xxx
Increase of contract assets due to new contracts during the year	xxx	xxx
Amortisation	xxx	xxx
Impairment loss of a contract asset	xxx	xxx
Cumulative catch-up adjustments	xxx	xxx
A change in the timeframe for a right to consideration to become unconditional	xxx	xxx
Other	xxx	xxx
Current contract assets as at 31 March 2019	xxx	xxx

Contract liability balance roll forward

	2019 £'000	2018 £'000
Contract liability as at 1 April 2018	xxx	xxx
Increase in contract liability during the year	xxx	xxx
Derecognition of contract liability	xxx	xxx
Revenue recognised from performance obligations satisfied in previous years	xxx	xxx
Cumulative catch-up adjustments	xxx	xxx
Other	xxx	xxx
Contract liability as at 31 March 2019	xxx	xxx

7.7.3 Significant changes

Significant changes in the contract asset or liability during the reporting period must be explained. The explanation shall include quantitative and qualitative factors (IFRS 15.118).

Examples include changes due to transfers of functions, changes in the time frames for the performance of contractual obligations or impairment of contract assets.

7.7.4 Impairments

Impairments of trade and other receivables relating to contracts with customers will need to be disclosed separately from other impairments. Differences between the measurement of receivables relating to contracts with customers and the amount recognised as revenue will need to be presented as an expense (e.g. as an impairment loss). Any impairment losses recognised will also need to be disclosed separately from impairment losses arising from other contracts (IFRS 15.108 and 113(b)).

7.7.5 Revenue recognised in relation to contract liabilities in the period

Disclosure is required for revenue recognised in relation to contract liabilities in the period (IFRS 15.116(b) and (c)). A provider must disclose:

- i. revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and
- ii. revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.

An example of how these disclosures may be structured is provided below:

Income recognised in relation to contract liabilities		
The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a 2018.		
	2019	2018
	£'000	£'000
<i>Income recognised that was included in the contract liability balance at the beginning of the period</i>		
Deferred income	xxx	xxx

7.8 Notes to the financial statements - Performance obligations

A provider must include information to help readers understand its performance obligations. A description of all of the following is required:

- when these performance obligations are typically satisfied;
- details of payment terms such as when payments are typically due, whether consideration is variable, and whether the estimate of variable consideration is typically constrained;
- the nature of goods or services a seller promises to transfer;
- obligations for returns or refunds; and

- types of warranties and related obligations if applicable.

Where there are performance obligations which have not been satisfied as at year end, further disclosures are also required in relation to the aggregate amount of transaction price allocated to unsatisfied performance obligations accompanied by an explanation of when this revenue is expected to be recognised.

7.8.1 Unsatisfied performance obligations

Unsatisfied performance obligations in contracts will need to be presented separately. The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) and an explanation of when the provider expects to recognise that income needs to be disclosed.

An example of how these disclosures may be structured is provided below:

Unsatisfied long-term consulting contracts		
The following table shows unsatisfied performance obligations.		
	2019	2018
	£'000	£'000
Aggregate amount of the transaction price allocated to performance obligations that are partially or fully unsatisfied as at 31 March	xxx	xxx*
* As permitted under the transitional provisions in IFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of the 2018 year end is not disclosed.		
Management expects that 60% of the transaction price allocated to the unsatisfied contracts as of 31 March 2019 will be recognised as income during the next reporting period (£xxx). The remaining 40% (£xxx) will be recognised in the 2020 financial year. The amount disclosed above does not include variable consideration which is constrained.		

Alternatively, the explanation of when the provider expects to recognise income can be disclosed on a quantitative basis using time bands that would be most appropriate for the duration of the remaining performance obligations.

As a practical expedient, no disclosure is required if a) the obligation is part of a contract that has an original expected duration of less than one year or b) income is recognised in a way that means that the value to the customer corresponds to the right to invoice for the service (e.g. billing a fixed amount for each hour of a service provided).

If the practical expedient is taken, a qualitative explanation of the position and whether any consideration is not included in the transaction price and therefore not included in the disclosure is also required (IFRS 15.120-122 and C5, C6 and B16).

8. Concluding Remarks

In the development of this paper bodies should note the following:

- a) **The analysis completed relates to a specific scope and local contract variations or other income streams are not covered by this paper. These should be considered against IFRS 15 in light of the substance of those arrangements.** That is not to say that the recommendations included in this report will not be able to suitably guide the appropriate considerations required when applying an accounting judgement under IFRS 15.
- b) The guidance provided in this paper is to be read in conjunction with the Group Accounting Manual (GAM).
- c) The guidance offered in this document does not reduce or replace the authority governing implementation of accounting standards which is pronounced via the FReM and replicated (except where departures from the FReM are agreed) in the GAM.
- d) The guidance offered in this document does not replace the onus on each body to assess the implications of IFRS 15 on the accounting treatments for its income streams.

IFRS 15 develops revised principles for assessing and measuring revenue generated from contracts with customers. The FReM in interpreting and adapting the Standard to fit the public sector context, creates additional scenarios in which IFRS 15 may be relevant for providers. Nevertheless, per the above analysis the impact of IFRS 15 for providers, from a view of considering the NHS Standard Contract, appears limited.

It is the case that contractual arrangements will require greater understanding as to their accounting implications. It is the case that more methodically consistent approaches to measuring progress against performance obligations will be required. It is the case that greater levels of quantitative and qualitative disclosure of revenue being and expected to be generated from contracts with customer is required. However, it is not necessarily the case that IFRS 15 is incompatible with previous revenue recognition practices.

Whilst the paper has been produced in conjunction with DHSC we welcome further discussion as to the implementation of IFRS 15. We request that in the first instance bodies contact their appropriate sector leads as per the below;

NHS Providers:	provider.accounts@improvement.nhs.uk
NHS Commissioners:	England.yearendaccounts@nhs.net
Other Arm's Length bodies:	DH_GAM@dhsc.gov.uk