

Document Details		
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Local Ref (optional)		
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Who is the document aimed at?		Finance, Informatics and Operations staff involved in the contracting process
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1	September 2014	Rewritten to update for changes and reflect provider status
2	September 2017	Rewritten to update for changes
3	September 2020	Rewritten to update for changes and incorporate COVID-19 matters
4	October 2023	Rewritten to update for changes, remove temporary COVID-19 requirements and recognise ICS level planning arrangements

# Shropshire Community Health NHS Trust

## Finance Procedures

### Section N Budgetary Control

#### N3 Healthcare Contract Setting, Monitoring, Invoicing and Reporting

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##### 1 – Contract Setting and Monitoring

- 1.1 Healthcare contracts with commissioners are subject to negotiation, normally on a yearly basis, although there is an increasing use of longer contracting periods. The aim of this process is to agree the terms and conditions of the contract and key schedules including financial value, activity and CQUIN as appropriate, and agree any changes to service specifications. Even where a contract covers a multi-year period there will likely be opportunity to revisit activity and financial assumptions each year.

Contracts with English NHS commissioners are based on the NHS Standard Contract format which is issued by NHS England and is mandated for use by ICBs and NHS England for all their clinical services contracts, with the exception of those for primary care services.

For contracts not covered by the NHS Standard Contract, for example Non-English commissioners and Local Authorities, it is the commissioner's responsibility to provide an agreement suitable for the service being commissioned. Whilst the nature of these agreements will vary they should clearly identify the service(s), time period and value.

- 1.2 Although negotiations vary between commissioners, it is established practice to start with forecast outturn activity for the current financial year re-costed at the new year's financial tariffs, where these are available. Management of system level financial pressures, investments and efficiency requirements may impact on the proposed contract value as determined by system level planning. Finance and Informatics staff are responsible for the development of finance and activity plans and must co-ordinate their activities to meet any deadlines as instructed by commissioners or required by national or local system planning processes.
- 1.3 With the introduction of ICS and system level planning there is limited scope for specific provider to commissioner contract negotiations. Where issues need to be raised outside of the system planning process the Head of Costing and Contracting will co-ordinate these and raise them direct with commissioners for discussion and resolution through the contracting process.
- 1.4 Once agreed all healthcare contracts must be signed off in line with SFI requirements and the scheme of delegation.
- 1.5 At the start of each financial year the Head of Costing and Contracting liaises with the Financial Planning & Reporting Accountant to develop an income schedule for each commissioner, which shows the agreed start-point contract value and clearly identifies whether income is recurrent or non-recurrent. This income schedule is then maintained and monitored by the Financial Planning & Reporting Accountant throughout the year and records all agreed changes.
- 1.6 Once the financial schedules within contracts are agreed by all parties they will be reflected within the Trust's annual budget setting paper, which is approved by the Board. Once approved, the ledger will then be adjusted to reflect the agreed financial values.

- 1.7 The Financial Planning & Reporting Accountant is responsible for maintaining a detailed financial reconciliation during the year for each commissioner, ensuring the value and reason for all changes is clearly documented.

## **2 – Contract Variations**

- 2.1 Contract variations must be agreed by both the commissioner and the Trust. Upon receipt of a signed variation that affects the contract value, the Financial Planning & Reporting accountant will:
- i. Amend the monthly invoice value raised to commissioners to reflect the agreed change, considering any required backdated adjustment.
  - ii. Amend the income schedule maintained for the given commissioner (per 1.5) to reflect the agreed change, clearly identifying recurrent and non-recurrent changes separately.
  - iii. Inform the Management Accounting team of the change to ensure the income and expenditure budgets are appropriately amended, ensuring recurrent and non-recurrent changes are clearly identified. The Financial Planning & Reporting Accountant will identify the appropriate budget profile, based on the period to which the income relates.
- 2.2 Variations to healthcare contract income may also occur due to variances between planned activity and actual activity delivered for variable cost contract elements. Contract performance is monitored by the Head of Costing and Contracting on a monthly basis to enable any activity variances to be identified and reflected in the financial position of the organisation. The Head of Costing and Contracting, in conjunction with the Financial Planning & Reporting Accountant, will:
- i. Receive monthly contracting activity reports from the Informatics department for all contracted commissioners.
  - ii. Identify over or under performances against individual contracts and apply any contractual adjustments, for example tolerances and margins, to identify the financial impact.
  - iii. Amend the income schedule for the given commissioner (per 1.5) to reflect the financial adjustment required.
  - iv. Inform the Head of Management Accounting of the change and ensure all material variances are accrued and reflected within the income position.
  - v. Issue an invoice or credit note to the relevant commissioners, usually on a quarterly basis from quarter 2 onwards.

## **3 – Invoicing Commissioners**

- 3.1 With the exception of financial adjustments for over or underperformances against contracts, invoices should be raised to commissioners monthly. Exceptionally the Trust may agree a different invoicing pattern with the commissioner, and this should be reflected in the timing of invoices raised. It is the responsibility of the Financial Planning & Reporting Accountant to ensure the invoices are raised in a timely manner and appropriate accruals are reflected within the monthly financial position.

- 3.2 Using the income schedule referred to in 1.5 monthly invoices should be raised to commissioners. The invoice value must reconcile to the latest expected contract value, including any agreed contract variations. The Financial Planning & Reporting Accountant must inform the Accounts Receivable function of the invoices to be raised, in accordance with the monthly budget report timetable and the Finance Procedure R1: Accounts Receivable – Invoicing and Receipts.
- 3.3 Should any queries or disputes occur in relation to these invoices the Accounts Receivable function will liaise with the Head of Costing and Contracting in line with Finance Procedure R3: Accounts Receivable – Credit Control.

#### **4 – Income Reconciliation**

- 4.1 It is the responsibility of the Financial Planning & Reporting Accountant to undertake a monthly reconciliation to reconcile:
- i. Income schedules (per 1.5) to current contract values, reflecting contract variations agreed in the month.
  - ii. Value of invoices raised to income expected per the income schedules.
  - iii. Income budgets in the general ledger to the income schedules, including recurrent and non-recurrent reconciliations.

Any discrepancies should be investigated and corrected where necessary.

#### **5 – Reporting**

- 5.1 The healthcare income position is reported within the monthly Resource and Performance finance paper and within the Board finance paper and describes key variances to plan.
- 5.2 Contracting performance is reported to the Contracting Management Group and within the quarterly Resource and Performance contracting paper and describes key variances to plan as well as other contracting issues and risks.
- 5.3 It is the joint responsibility of the Head of Costing and Contracting and the Head of Management Accounting to ensure that the finance and contracting reports submitted to Resource and Performance Committee are consistent.

**Appendix 1** below illustrates the reporting flow and responsibilities.

#### **References & associated documents**

Finance Procedure N4: Monthly Financial Reports Production  
Finance Procedure R1: Accounts Receivable – Invoicing and Receipts  
Finance Procedure R3: Accounts Receivables – Credit Control

Reviewed By \_\_\_\_\_

Date \_\_\_\_\_

Authorised By \_\_\_\_\_

Date \_\_\_\_\_

