

Document Details		
Title		Finance Procedure N3 : Healthcare Contract Setting, Monitoring, Invoicing and Reporting
Trust Ref No		807-61831
Local Ref (optional)		
Main points the document covers		Finance procedure for accounting for healthcare contracts
Who is the document aimed at?		Finance, Informatics and Operations staff involved in the contracting process
Author		Mark Mawdsley, Head of Costing and Contracting
Approval process		
Approved by (Committee/Director)		Associate Director of Finance
Approval Date		22/9/2020
Initial Equality Impact Screening		Yes
Full Equality Impact Assessment		No
Lead Director		Associate Director of Finance
Category		Finance
Sub Category		Finance Procedures
Review date		01/10/2023
Distribution		
Who the policy will be distributed to		Distributed to senior staff as defined by directors
Method		Electronically to senior staff & available to all staff via the Trust web-site
Document Links		
Required by CQC		
Required by NHLSA		
Other		
Amendments History		
No	Date	Amendment
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		
5		

Shropshire Community Health NHS Trust

Finance Procedures

Section N Budgetary Control

N3 Healthcare Contract Setting, Monitoring, Invoicing and Reporting

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 quantum, 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 used by CCGs 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 NHS 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. 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 internal plans.
- 1.3 It is the responsibility of the Head of Costing and Contracting to co-ordinate issues to be raised by the Trust (e.g. cost pressures or activity changes) and present these to commissioners for discussion and resolution through the contracting process.
- 1.4 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.
- 1.5 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.
- 1.6 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 the Financial Planning & Reporting accountant will:

- i. Amend the monthly invoice value raised to commissioners to reflect the agreed change.
- ii. Amend the income schedule maintained for the given commissioner (per 1.4) 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 the financial quantum may also occur due to variances between planned activity and actual activity delivered for cost and volume 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. In order to enable this, 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 1.4) 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 on a monthly basis. 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 1.4 monthly invoices should be raised to commissioners. The invoice value must reconcile to the latest quantum position 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 1.4) 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 disputes.
- 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.

6 – 2020/21 Financial Year and COVID-19 Response

- 6.1 At the time of review and update of this procedure the NHS is managing an unprecedented level of demand due to the COVID-19 pandemic and the response to this is changing processes and procedures. During the financial year 2020/21 specific national guidance has been issued regarding contracting and management of financial flows. This guidance over-rides existing contractual arrangements including healthcare contracts and introduces block payment arrangements for most NHS contracts. Other commissioners, such as Local Authorities and Welsh healthcare organisations, have largely agreed to follow the NHS guidance and approach.
- 6.2 For the 2020/21 financial year the procedure detailed above will not be followed in full as no direct contracts are required with commissioners due to national guidance and agreements. Sections 1-3 will not be relevant for 2020/21. The value of block payments to be made by commissioners has been determined by NHSE&I, and

national terms and conditions, as set out in the NHS Standard Contract apply. Contract review meetings are extremely limited and no contractual penalties currently apply.

- 6.3 Despite the removal of variable elements from healthcare income in 2020/21, e.g. contract variations and activity variances, it remains the responsibility of the Financial Planning & Reporting Accountant to undertake a monthly reconciliation of healthcare contracting income as per section 4 above.
- 6.4 During 2020/21 the requirements of section 5 above remain, however contract performance reported under 5.2 will largely be indicative and not reflect actual variances. The Head of Management Accounting and Head of Costing and Contracting will ensure that reports submitted to Resource and Performance Committee reflect the latest national guidance and provide an accurate income assessment.
- 6.5 It is anticipated that from the financial year 2021/22, i.e. from 1st April 2021, the requirements of this procedure will resume in full. However this will be dependent on the COVID-19 position and evolving national guidance. Where long term permanent changes to contracting arrangements and requirements become evident this procedure will be reviewed and updated to reflect this regardless of the planned review date.

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 _____

