Monitor
Independent Regulator of NHS Foundation Trusts

Restructuring costs / revenue recognition

1. Restructuring costs

Restructuring costs associated with provisions for restructuring are excluded from the calculation of financial risk ratings. Therefore, it is particularly important that trusts only include eligible costs within the restructuring costs line of the quarterly returns.

In line with the criteria to recognise any provision, as set out in IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, an 'obligating event' must have arisen for a restructuring provision and the associated restructuring costs to be recognised. Furthermore, specific conditions must exist for such an obligating event to have arisen in relation to a restructuring provision, being that, at the time the costs are recognised:

- a detailed formal plan for the restructuring is in place identifying certain criteria required by the accounting standard (IAS 37 paragraph 72); and
- a valid expectation has been created in those affected that the restructuring will be carried out, either by starting to implement the plan or publicly announcing its main features (IAS 37 paragraphs 72 and 73).

IAS 37 specifically sets out that a provision cannot be made where only a management or board decision to restructure has been taken as it is not considered that this in itself gives rise to obligation to restructure (IAS 37 paragraph 75).

IAS 37 also specifies that only the direct expenditure which is necessary as a result of restructuring can be included in the restructuring provision. This includes costs of making employees redundant (though note that the treatment of redundancy costs is governed by IAS 19 – Employee benefits) and costs of terminating certain leases and other contracts directly as a result of restructuring. However, it specifically excludes costs of retraining or relocating staff, marketing or investment in new systems and distribution networks, as these costs relate to future operations and so do not fall under the definition of a provision.

This represents a summary of the requirements only and trusts should refer to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets for further guidance.

2. Recognition of revenue

Revenue should be recognised in accordance with IAS 18 - Revenue Recognition. In accordance with IAS 1 – Presentation of Financial Statements, revenue recognised in accordance with IAS 18 should be recognised gross and should not be netted off against related expenditure.

Foundation trusts' revenue is largely generated through the provision of services and should be recognised by reference to the stage of completion of work, in line with IAS 18. Specifically, the *NHS Foundation Trust Annual Reporting Manual* (ARM) states that if a foundation trust can demonstrate that it is certain to receive the revenue for a treatment or spell once the patient is admitted and treatment begins, the revenue for that treatment or spell should start to be recognised at the time of admission and the treatment starting, with costs of treatment being expensed as they are incurred. Revenue relating to partially completed spells at the end of a period should be pro-rated on a suitable basis, as determined by a foundation trust and in line with IAS 18 and, where material, disclosed in the financial statements.

As such, Monitor expects all gross income relating to services provided (including income relating to over performance) to accrue over the course of the year in line with activity, rather than being recognised as a series of lump sums following agreement with commissioners. In line with the IAS 36 – Impairment of Assets, where there is an indication that the carrying value of the debtor related to this revenue exceeds the recoverable amount at a period in time, the related debtor should be impaired and the impairment loss recognised. This would apply if there is an indication that the trust will not receive payment for all revenue that it has recognised (for example, revenue relating to overperformance).

Trusts should refer to paragraphs 4.5 to 4.10 of the ARM and the accounting standards referenced for further guidance.