



Delivering value with digital technologies
Webinar: June 2022



Accounting for revenue and capital: implications for the digital age

22 June 2022 at 13:00

This webinar is part of the *Delivering value with digital technologies* programme that the HFMA is undertaking, supported by Health Education England. For more information visit hfma.to/valuewithdigital.



Agenda

- What is capital and why is it important?
- Accounting for digital transformation
- System wide systems

Poll question

The following best describes me

- I work in an NHS finance team
- I work in an NHS procurement team
- I work in an NHS IT/ informatics team
- I don't work in the NHS
- None of the above

A limited resource

	2020/21 £bn	2021/22 £bn	2022/23 £bn	2023/24 £bn	2024/25 £bn
Resource departmental expenditure limit	136.3	146.1	167.9	173.4	177.4
Capital departmental expenditure limit	8.6	9.2	10.6	10.5	11.3

	2018/19 £m	2019/20 £m	2020/21 £m
CDEL underspend	42	110	235
	0.07%	1.54%	1.82%

Table 6: Capital DEL Spending Breakdown by Activity

	Budget £m	Outturn £m	Under/(over) £m
NHS business as usual activities	6,722	6,756	(34)
NHS COVID-19	613	594	19
NHS Test and Trace	2,716	2,447	269
Personal Protective Equipment	60	31	29
Vaccine deployment	10	3	7
COVID-19 medicines, treatments and R&D	157	68	90
Ventilators and Critical Care Stockpile	439	443	(5)
Other COVID-19	14	14	0
Non-NHS Business as usual activities	2,187	2,328	(141)
TOTAL CDEL	12,918	12,683	235

What is capital expenditure?

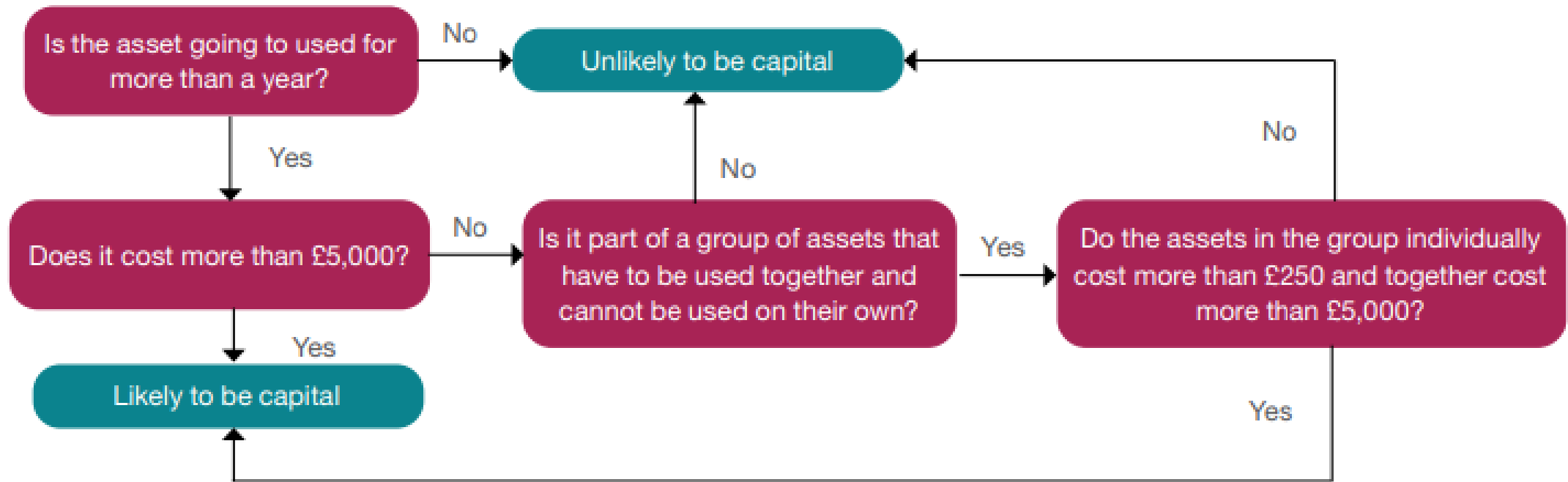
Capital expenditure is money spent on purchasing an asset (tangible or intangible) that has the potential to earn income or will be used to provide services in the future. The asset will be controlled by the organisation and used for more than a year.

Tangible assets include buildings but also computers and equipment. Intangible assets can include software that is either developed in house or specifically for the NHS body.

Revenue (or resource) expenditure is usually described as day-to-day running costs. Any expenditure that does not meet the definition of capital is revenue.

- [IFRS - IFRS Standards Navigator](#) (sign in required)
- Conceptual framework for financial reporting
- IAS 16 *Property, plant and equipment*
- IAS 38 *Intangible assets*
- IFRS 16 *Leases*
- DHSC [Group accounting manual](#)

Capital expenditure or not?



Paying for capital

- Internally generated cash
- Loans/ public dividend capital
- Lease
- Donations and grants

“The type of funding received has no impact on how the associated expenditure is accounted for. Whether expenditure is capital is determined by the application of international financial reporting standards, as set out for NHS bodies in the DHSC’s Group accounting manual.”

Poll question

Has your organisation received capital funding for digital projects:

- Yes, and the expenditure was capital
- Yes, but we struggled to capitalise the expenditure
- No, we turned the funding down as the associated expenditure was not capital
- No
- Don't know

Roles of management and audit

Accounting/ accountable officer:

- Prepares financial statements that give a true and fair view
- Makes judgements and estimates on a reasonable basis
- Applies accounting standards
- Complies with relevant legislation, delegated authority and guidance

Auditor:

- Obtains reasonable assurance that the financial statements are free from material misstatement

Conceptual framework

‘An asset is a present economic resource **controlled** by the entity as a result of past events.’

‘An economic resource is a right that has the **potential to produce economic benefits.**’

‘Where the rights do not have the potential to produce economic benefits beyond the economic benefits available to everyone then there is no asset’

‘The potential to produce economic benefits does not need to be certain or even likely – it just has to exist and in at least one circumstance would produce for the entity economic benefits beyond those available to other parties’

‘An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it.’

IAS 16 *Property, plant and equipment*

‘**tangible** items that:

- are **held for use** in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during **more than one period.**’

‘the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- it is probable that **future economic benefits** associated with the item will flow to the entity and
- the cost of the item can be **measured reliably.**’

IAS 38 *Intangible assets*

‘An intangible asset is an **identifiable** non-monetary asset without physical substance’

‘An asset is a resource:

- **controlled** by an entity as a result of **past events**; and
 - from which **future economic benefits** are expected to flow to the entity’
 - Identifiable means the asset is separable or arises from contractual/ other legal rights
 - Control is the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits
 - Intangible assets are only recognised when:
 - it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and
 - the cost of the asset can be measured reliably
-

IAS 38 *Intangible assets*

- Common examples include computer software, customer lists, customer or supplier relationships ... but only if they meet the definition of an identifiable intangible asset
- Apply judgement to determine whether the intangible or tangible element is more significant
- Indicators of control include:
 - legal title
 - risks of ownership – insurance, maintenance
 - determining what services the asset is used to provide and who those services are provided to
 - determining who can use/ access the asset and who cannot and when they can use or access it

Software as a service

- ‘Software as a Service’ cloud computing arrangement:
 - customer contracts to pay a fee in exchange for a right to receive access to the supplier’s application software for a specified term
 - the supplier’s software runs on cloud infrastructure managed and controlled by the supplier
 - the customer accesses the software on an as needed basis over the internet or via a dedicated line
- The customer has no decision making rights about how and for what purpose the software is used so **no leased asset**
- The customer has no power to obtain the future economic benefits flowing from the software itself and to restrict others’ access to those benefits so **no intangible asset**

Software as a service

- ‘Software as a Service’ cloud computing arrangement – no software asset, this is a service over the contract term
- But, the customer configures the software by:
 - setting up flags/ switches in the software's existing code so it functions in a specified way
 - modifying the software code in the application or by writing additional code
- The customer has no control over the software and there is no resource for the entity unless the additional code meets the definition of an intangible asset
- If there is no intangible asset then the costs incurred are expensed when the service is provided

Grouped assets (GAM 4.194 – 4.196)

- To be capitalised as a group all of these criteria should be met:
 - the total cost of the grouped asset is greater than £5,000
 - the items are functionally interdependent
 - acquisition at about the same date and planned disposal at about the same date
 - under single managerial control
 - each individual asset has a value of over £250

‘It is expected that IT hardware will be considered interdependent if it is attached to a network, the fact that it may be capable of stand-alone use notwithstanding.

The effect of this will be that all IT equipment purchases, where the final three criteria listed above apply, will be capitalised.’

Applying the theory

- Understand the arrangement
 - Software and hardware
 - Who does what/ who can do what
 - Who makes the decisions
 - Role of the supplier
 - Risks and rewards
 - What happens at the end
- What if the answer is revenue but the funding is not?

Poll question

Which of the following applies to your organisation?

- We do not share any IT systems/ assets with other organisations
- We plan to share IT systems/ assets with other organisations
- We already work across organisations and we host the arrangement
- We already work across organisations but we are not the host organisation
- We already work across organisations and are both host and access systems/ assets hosted by other NHS bodies

Systems across systems

223M Financial duties of integrated care boards etc: use of resources

(1) Each integrated care board and its partner NHS trusts and NHS foundation trusts must exercise their functions with a view to ensuring that, in respect of each financial year –

- local capital resource use does not exceed the limit specified in a direction by NHS England;
- local revenue resource use does not exceed the limit specified in a direction by NHS England.

14Z43 Duty to have regard to wider effect of decisions

- (1) In making a decision about the exercise of its functions, an integrated care board must have regard to all likely effects of the decision in relation to –
- the health and well-being of the people of England;
 - the quality of services provided to individuals –
 - in pursuance of arrangements made by relevant bodies, for or in connection with the prevention, diagnosis or treatment of illness, as part of the health service in England;
 - efficiency and sustainability in relation to the use of resources by relevant bodies for the purposes of the health service in England.

223GB Power to impose financial requirements on integrated care board

- NHS England may give integrated care boards directions about the management or use of financial or other resources.
- The directions that may be given include a direction imposing limits on expenditure or resource use by integrated care boards.
- NHS England must publish any directions under this section.

223GC Financial duties of integrated care boards: expenditure limit

- An integrated care board must exercise its functions in a way that ensures that expenditure incurred by it in a financial year does not exceed the sums permitted by a direction given by NHS England.

Incidental powers

- 23 The power conferred on an integrated care board to include, in particular, power to –
- enter into agreements,
 - acquire and dispose of property, and
 - accept gifts (including property to be held for the purposes of the integrated care board).

14Z39 Duty to promote innovation

Each integrated care board must, in the exercise of its functions, promote innovation in the provision of health services (including innovation in the arrangements made for their provision).

14Z42 Duty to promote integration

- Each integrated care board must exercise its functions with a view to securing that health services are provided in an integrated way where it considers that this would –
 - improve the quality of those services (including the outcomes that are achieved from their provision),
 - reduce inequalities between persons with respect to their ability to access those services, or
 - reduce inequalities between persons with respect to their ability to access those services, or
- Each integrated care board must exercise its functions with a view to securing that the provision of health services is integrated with the provision of health-related services or social care services where it considers that this would –
 - improve the quality of the health services (including the outcomes that are achieved from the provision of those services),
 - reduce inequalities between persons with respect to their ability to access those services, or
 - reduce inequalities between persons with respect to the outcomes achieved for them by the provision of those services.

But

- All organisations within an ICB/ ICP remain sovereign bodies
- Understand the arrangement between organisations
 - Lease
 - Supply of service
 - Grant

Reference material

- [NHS Transformation Directorate](#)
- [Frontline Digitisation - FutureNHS Collaboration Platform](#)
- [HEE - digital literacy of the wider workforce](#)
- NHS England and NHS Improvement, [2022/23 priorities and operational planning guidance: capital guidance for 2022-25](#), updated May 2022
- [HFMA - delivering value with digital technologies](#)
 - HFMA, [Summary of capital guidance 2022 to 2025](#), April 2022
 - HFMA, [Property, plant and equipment - accounting and valuation issues](#), February 2022
 - HFMA, [Accounting for revenue and capital - implications for the digital age](#), December 2021

Where next?

- Accounting for digital briefing v2
- Continue to talk to anyone that will listen
- Examples please! Debbie.Paterson@hfma.org.uk



Questions?

About the HFMA

The Healthcare Financial Management Association (HFMA) is the UK representative body for finance professionals working in the NHS and the wider healthcare sector. Our aim is to support the NHS finance function, to promote good practice in financial management and to improve the general understanding of NHS finance issues.

Our work is informed by a number of committees and special interest groups made up of healthcare finance practitioners. We publish numerous guides and briefings aimed at finance professionals, non-executive directors and non-finance staff. We also provide training and development opportunities – including a suite of web based learning modules – across all of these groups.

www.hfma.org.uk