

FINANCIAL REPORTING IN THE HEALTH SERVICE

Professional 2 examination 7 December 1999

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am

Instructions to candidates

*Answer **four** questions in total: **both** questions from Section A and **two** questions from Section B. The marks available for each question are shown in italics in the right-hand margin.*

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

SECTION A (Answer both questions)**1**

The following balances have been extracted from the accounts of Redshire NHS Trust as at 31 March 1999:

| | £000 | £000 |
|--|----------------|----------------|
| Accumulated equipment depreciation at 1 April 1998 | | 16,590 |
| Buildings (net book value 1 April 1998) | 53,660 | |
| Cash at bank and in hand | 820 | |
| Debtors | 2,100 | |
| Equipment (gross replacement cost 1 April 1998) | 38,600 | |
| Income and expenditure reserve | | 2,600 |
| Income from healthcare contracts | | 96,700 |
| Instalment due on loans | | 968 |
| Interest received | | 220 |
| Interest paid | 1,300 | |
| Interest payable | | 1,300 |
| Land (at 1 April 1998) | 16,015 | |
| Long term loans | | 37,024 |
| NHS creditors | | 3,208 |
| Other creditors | | 870 |
| Other expenditure | 5,210 | |
| Other income | | 14,460 |
| Provisions for liabilities and charges | | 1,300 |
| Public Dividend Capital | | 38,200 |
| Public dividend capital dividends | 1,105 | |
| Revaluation Reserve | | 4,520 |
| Salaries and wages | 68,550 | |
| Stocks and WIP | 1,100 | |
| Supplies and services | 29,500 | |
| | <u>217,960</u> | <u>217,960</u> |

Additional notes:

The following transactions are not recorded in the ledger:

- Indices to be applied are:

| | 1997/98 | 1998/99 |
|-----------|----------------|----------------|
| Land | 106 | 110 |
| Buildings | 136 | 142 |
| Equipment | 118 | 122 |

2. Fixed assets acquired during the year are as follows:

| | Date of purchase | Amount | Asset type |
|-------------------------|-------------------------|---------------|-------------------|
| New Radiology scanner | 2 July 1998 | £125,000 | Donated |
| Physiotherapy equipment | 3 October 1998 | £160,000 | Cash |

3. The average remaining life of the equipment in the Trust is 12 years and the above assets are both deemed to have a useful life of 5 years from their date of purchase.
4. On 1 April 1998 there was a revaluation of the land and buildings by District Valuer. The asset values are to be increased by the following amounts.

Land £220,000

Buildings £400,000

The buildings have a remaining life of 76 years.

5. A section of the old hospital building has been sold during the last quarter of the year. The area that is left is to be converted to additional car parking spaces for staff. The building had a net book value of £300,000 and was sold for £425,000.
6. A provision is to be made for £250,000 for further costs in preparing for the year 2000.
7. The Trust is currently in the middle of a complex industrial tribunal against a former employee. The costs to date have been £50,000 and a further £50,000 is to be provided.

• **Requirement for question 1**

- (a) Prepare the income and expenditure account for Redshire NHS Trust for the year to 31 March 1999. 9
- (b) Prepare the Trust balance sheet at 31 March 1999. 16

(25)

2

Castlefield NHS Trust is a large acute provider of hospital services. On average it employs 1,930 staff across two sites close to the city centre. During 1998/99 one of its main objectives was to reduce waiting lists over more than one year whilst achieving its financial targets. Effective management of costs and increased productivity were seen as the way forward whilst maintaining quality of service.

The following financial and service information relates to Castlefield NHS Trust for the respective financial years of 1997/98 and 1998/99.

| | 1997/98 | 1998/99 |
|------------------------------------|----------------|----------------|
| | £000 | £000 |
| Income and expenditure | | |
| Income | 75,540 | 80,900 |
| Supplies expenditure | 18,615 | 18,965 |
| Other expenditure | 55,840 | 60,060 |
| Interest receivable | 320 | 565 |
| Interest payable | 1,570 | 1,495 |
| PDC dividends | nil | 885 |
| Balance sheet | | |
| Fixed assets | 37,840 | 38,570 |
| Stocks (supplies) | 1,835 | 1,870 |
| Debtors | 5,030 | 4,720 |
| Creditors (supplies) | (7,225) | (8,320) |
| Cash and bank | 3,645 | 6,040 |
| Loans due after more than one year | (13,710) | (12,980) |
| Liabilities and charges | (2,600) | (3,700) |
| Public dividend capital | 18,530 | 18,530 |
| Revaluation reserve | 2,135 | 3,240 |
| Donation reserve | 980 | 1,200 |
| Income and expenditure account | 3,170 | 3,230 |

Service information

| | | |
|---|---------|---------|
| Number of bills (excluding NHS) | 137,385 | 125,505 |
| Number of bills paid within 30 days (exc NHS) | 123,640 | 119,230 |
| Management costs (£000) | 2,410 | 2,403 |
| Bed numbers | 465 | 445 |
| Patient days | 135,650 | 126,900 |
| Finished consultant episodes | 27,130 | 28,200 |
| Number of operations | 8,200 | 8,400 |
| Number of operations cancelled | 120 | 150 |
| % inpatients admitted within 12 months | 90 | 97 |
| Number of clinical care and treatment complaints | 42 | 50 |
| Number of outpatient attendances | 117,640 | 111,000 |
| % outpatients seen within 26 weeks | 87 | 90 |
| Outpatients seen within 30 minutes (%) | 91 | 91 |

- **Requirement for question 2**

(a) Produce a report for the Board of Directors of Castlefield NHS Trust which:

- states the possible reasons for long waiting lists; 1
- illustrates and comments on service performance; 9
- comments on the financial performance; 9
- makes conclusions in light of its objectives. 3

(b) One of the many drawbacks of using performance indicators is that they tend to focus on the process rather than the outcome. Identify other performance indicators and initiatives which Castlefield NHS Trust could employ in order to assess the quality of their services. 3

(25)

SECTION B (Answer two questions)**3**

The following trial balance relates to the charitable funds of Bradshire NHS Trust for the year ended 31 March 1999:

| | £ | £ |
|------------------------------------|----------------|----------------|
| Property | 201,750 | |
| Investments as at 28 February 1999 | 325,400 | |
| Professional fees | 15,400 | |
| Stock as at 31 March 1999 | 800 | |
| Debtors | 650 | |
| Cash | 24,741 | |
| Donations | | |
| Unrestricted | | 118,629 |
| Restricted | | 82,958 |
| Investment income | | |
| Unrestricted | | 12,102 |
| Restricted | | 11,440 |
| Fundraising expenditure | 10,405 | |
| Creditors | | 19,474 |
| Management and administration | 18,946 | |
| Other incoming resources | | 5,411 |
| Capital funds: | | |
| Unrestricted | | 262,412 |
| Restricted | | 100,393 |
| Charitable expenditure: | | |
| Unrestricted | 10,465 | |
| Restricted | 9,522 | |
| Fundraising income (unrestricted) | | 5,260 |
| | <u>618,079</u> | <u>618,079</u> |

The following information is also available:

1. The professional fees relate to a professional advertising agency that was used to promote a major charitable event within the Trust. These should be split between the restricted and unrestricted funds in relation to the fund balances.
2. Property has been re-valued to £204,744 and relates to the unrestricted funds.
3. There has recently been a fete organised by the special care baby unit to raise funds for one of the restricted funds. This event raised £2,900 and has yet to be transferred into the fund.

4. Income tax of £2,100 is reclaimable from the Inland Revenue in respect of investment income received net. This is to be split 65:35 between unrestricted and restricted funds.
5. A legacy of £7,500, specifically for the purchase of intensive care machinery, was left to the Trust during March 1999 and is yet to be accounted for.
6. The portfolio of investments at 1 April 1998 was as follows:

Treasury 6% 2004 £205,000

| | Market value at 1 April 98 | Market value at 31 March 99 | Holding |
|-----------------|---------------------------------------|--|----------------|
| Scratchings plc | 141p | 148p | 20,000 |
| Dracma plc | 211p | 213p | 41,000 |
| Rafter plc | 50p | 60p | 11,380 |

7. The following investment transactions took place on 31 March 1999:

| | Sale price per share | Sold | Purchased |
|-----------------|-----------------------------|-------------|------------------|
| Scratchings plc | 148p | 6,000 | |
| Dracma plc | 213p | 4,000 | |
| Gramah plc | 310p | | 15,000 |

Any profits or losses arising on the sale of investments should be split in relation to the fund balances as should any unrealised gains or losses.

8. Other incoming resources and management and administration expenditure should be split 65:35 between unrestricted and restricted funds.
9. Fundraising expenditure relates to a number of events throughout the year. Apart from £1,060 relating to the fete (note 3), the balance should be split 65:35 between unrestricted and restricted funds.
10. An amount of £1,820 is still owing to the unrestricted funds in relation to fund raising events held in March 1999. An invoice of £450 relating to this is still outstanding for payment.

- **Requirement for question 3**

- (a) Prepare the Statement of Financial Activities for the charitable funds of Bradshire NHS Trust for the year ended 31 March 1999. *13*
 - (b) Prepare the balance sheet at 31 March 1999. *12*
- (25)*

4

The following information relates to Denton NHS Trust.

| 1997/98 £000 | | 1998/99 £000 |
|-----------------|--|-----------------|
| | <u>Fixed assets</u> | |
| 7,800 | Land | 6,000 |
| 100,000 | Buildings | 103,000 |
| 39,800 | Equipment | 41,790 |
| (28,600) | Less depreciation | (31,206) |
| - | Assets in the course of construction | 500 |
| 119,000 | | 120,084 |
| | <u>Current assets</u> | |
| 2,900 | Stock | 4,910 |
| 9,500 | Debtors | 8,120 |
| 540 | Prepayments | 470 |
| 20 | Interest receivable | 60 |
| 100 | Investments | - |
| 10 | Bank | 396 |
| 13,070 | | 13,956 |
| | <u>Creditors due within one year</u> | |
| 2,520 | NHS creditors – revenue | 3,240 |
| - | NHS creditors – capital | 500 |
| 3,100 | Accruals | 2,180 |
| 210 | Interest payable | 200 |
| 2,800 | Loan instalment | 2,920 |
| 8,630 | | 9,040 |
| | <u>Creditors due after one year</u> | |
| 58,600 | Loan | 59,000 |
| 3,230 | Provisions for liabilities and charges | 2,000 |
| 61,610 | | 64,000 |
| | <u>Financed by</u> | |
| 49,800 | Public Dividend Capital | 49,800 |
| 7,540 | Revaluation reserve | 10,017 |
| 4,000 | Donation reserve | 3,780 |
| 270 | Income and expenditure | 403 |
| 61,610 | | 64,000 |

Additional information for the financial year 1998/99:

1. Indexation provided on fixed assets

| | |
|-----------|-----|
| | % |
| Land | 1.5 |
| Buildings | 2.0 |
| Equipment | 5.0 |
2. During the year a piece of land was sold at its carrying value.
3. Buildings have a remaining life of 60 years. All purchases were acquired during March 1999.
4. Equipment has a remaining life of 10 years.
5. The donation reserve relates purely to equipment.
6. Assets in the course of construction remain unpaid at the end of the year.
7. Amounts recorded in the income and expenditure account were as follows:

| | |
|-----------------------------------|-------------|
| | £000 |
| Interest receivable | 340 |
| Interest payable | 4,730 |
| Public dividend capital dividends | 3,395 |

8. The trust achieved its external financing limit exactly.

• **Requirement for question 4**

- | | |
|--|------|
| (a) Prepare a cash flow statement for Denton NHS Trust for the financial year ending 31 March 1999. | 8 |
| (b) Prepare Note 1 - Reconciliation of operating surplus to net cash flow from operating activities. | 8 |
| (c) Prepare Note 2 - Reconciliation of net cash flow to movement in net debt. | 3 |
| (d) Prepare Note 3 - Analysis of changes in debt. | 4 |
| (e) Explain the external financing limit within the context of Denton NHS Trust. | 2 |
| | (25) |

5

A new Non-Executive Director has recently been appointed to the Board of Sunhill NHS Trust. His background is non-financial. He has just received a copy of the Trust's annual report and accounts for the financial year 1998/99 and has sent the following memo to the Chief Executive.

MEMORANDUM

To: Mr T Smith, Chief Executive
From: Mr A Brown, Non-Executive Director
Date: 23 November 1999

Subject: Issues arising from the annual report and accounts 1998/99

Thank you for sending me the latest copy of the annual report and accounts. I thoroughly enjoyed reading its contents, however I do have a number of queries I would like clarification on.

I understand that primary care groups have been set up to replace GP fundholders from April of this year. What are their main functions and how may they develop over time? How has this change affected our annual contracting arrangements?

There are various references to corporate governance in the report and that all aspects of it were satisfied in the public interest. What does corporate governance cover and how do we satisfy it?

I see that Treasury approval has been granted for the reprovision of the General Hospital from the centre of town to a greenfield site under a PFI scheme. Can you explain the main features of such a scheme?

Finally I note that the Trust has participated in developing the local health improvement programme. What is the aim of such a programme and what is contained in it? Who else was involved?

Thank you in advance.

- **Requirement for question 5**

Draft an appropriate response to the Non-Executive Director on behalf of the Chief Executive.

(25)