

FINANCIAL REPORTING IN THE HEALTH SERVICE

Professional 2
December 1999

MARKING SCHEME

The logo for CIPFA (Chartered Institute of Public Finance and Accountancy) features the letters 'CIPFA' in a serif font. A stylized, curved line arches over the 'I' and 'P', resembling a bridge or a decorative flourish.

Question 1

Redshire NHS Trust
Income and Expenditure account for the year 31 March 1999

		£000	
Income from activities	(per trial balance)	96,700	<i>1/2</i>
Other operating income	(W.1)	<u>14,472.5</u>	<i>1</i>
		111,172.5	
Operating expenses	(W.2)	<u>106,215.58</u>	<i>5 1/2</i>
Operating surplus		4,956.92	
Profit on disposal of fixed asset	(W.3)	<u>125.0</u>	<i>1/2</i>
Surplus before interest		5,081.92	
Interest receivable	(per trial balance)	220.0	<i>1/2</i>
Interest payable	(per trial balance)	<u>(1,300.0)</u>	<i>1/2</i>
Surplus for the financial year		4,001.92	
Public dividend payable	(per trial balance)	<u>(1,105.0)</u>	<i>1/2</i>
Retained profit for the year		2,896.92	<i>(9)</i>

Working 1

Per trial balance	14,460		
Release from donation reserve	<u>12.5</u>		<i>1</i>
	14,472.5		

Working 2

Salaries and wages (per T.B)	68,550		<i>1/2</i>
Supplies and services (per T.B)	29,500		<i>1/2</i>
Other expenditure (per T.B)	5,210		<i>1/2</i>
Year 2000 provision (note 6)	250		<i>1/2</i>
Increase in provision (note 7)	50		<i>1/2</i>

Depreciation buildings

Opening cost	53,660		
Revaluation	<u>400</u>		
	54,060		
Indexation 54,060 * 142/136	56,445		
Disposal	(300)		
As at 31 March 1999	56,145		
Depreciation charge 56,145/76	738.75		<i>1</i>
Depreciation donated asset			

Redshire NHS Trust
Balance sheet 13 at 31 March 1999

Fixed assets

Land (W.1)	16,847.64	<i>1</i>
Buildings (W.2)	55,406.25	<i>2 ½</i>
Equipment (W.3)	<u>21,124.17</u>	<i>3 ½</i>
	93,378.06	

Current assets

Stocks (per T.B)	1,100	<i>½</i>
Debtors (per T.B)	2,100	<i>½</i>
Cash (W.4)	1,085	<i>1</i>
	4,285	

Creditors less than 1 year (W.5) (6,346) *2*

Creditors more than 1 year (per T.B) (37,024) *½*

Provisions for liabilities and charges (W.6) (1,600) *1*

52,693.06

Public dividend capital (per T.B) 38,200 *½*

Revaluation reserve (W.7) 8,883.64 *2*

Income and expenditure reserve (W.8) 5,496.92 *½*

Donation reserve (W.9) 112.5 *½*

52,693.06

(16)

Working 1

Land

Land as at 1 April 1998	16,015	
Revaluation	220	<i>½</i>
	16,235	
Indexation 110/106	16,847.64	<i>½</i>

Working 2

Building

NBV		
As at 1 April 1998	53,660	
Revaluation	<u>400</u>	<i>½</i>
	54,060	

Indexation 142/136	56,445		$\frac{1}{2}$
Disposals	(300)		$\frac{1}{2}$
As at 31 March 1999	56,145		

Depreciation provided for the year	(738.75)		1
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NBV as at 31 March 1999 55,406.25

Working 3

Equipment

Cost at 1 April 1998	38,600		
Indexation 122/118	39,908		$\frac{1}{2}$
Additions purchased	160		$\frac{1}{2}$
Additions donated	125		$\frac{1}{2}$
As at 31 March 1999	40,193		

Depreciation

Accumulated at 1 April 1998	16,590		
Indexation 122/118	17,152		$\frac{1}{2}$
Depreciation provided for the year	1,916.83	(12.5 + 8 + 1896.33)	1
Accumulated depreciation at 31 March 1999	19,068.83		
NBV at 31 March 1999	21,124.17	(40,193 – 19,068.83)	$\frac{1}{2}$

Working 4

Cash

Cash per trial balance	820		
Purchase (note 2)	(160)		$\frac{1}{2}$
Capital receipt (note 5)	<u>425</u>		$\frac{1}{2}$
	1,085		

Working 5

Creditors

Instalments due on loans	968		$\frac{1}{2}$
Interest payable	1,300		$\frac{1}{2}$
NHS creditors	3,208		$\frac{1}{2}$
Other creditors	<u>870</u>		$\frac{1}{2}$
	6,346		

Working 6

Provision per T.B	1,300		
Year 2000 provision	250		$\frac{1}{2}$

Additional provision (note 6)	<u>50</u>	<i>1/2</i>
	<u>1,600</u>	

Working 7

Per T.B	4,520	
Indexation	4305.64 (land 612.64, Buildings 2385, Equipment 1308)	<i>1</i>
Revaluation	620	<i>1/2</i>
Indexation on depreciation	<u>(562)</u>	<i>1/2</i>
	8,883.64	

Working 8

As at 1 April 1998	2,600	
Add surplus for the year	<u>2,896.92</u>	<i>1/2</i>
	5,496.92	

Working 9

Capital donation (note 2)	125	
Release to I&E account	<u>(12.5)</u>	<i>1/2</i>
	112.5	

Question 2

(a)

Reasons for long waiting lists

- popular hospital being over subscribed
- under resourced
- plain inefficiency

½ mark per point to a maximum of 1

Service performance indicators

ALOS	97/98		98/99	
Patient days	<u>135650</u>	= 5 days	<u>126900</u>	= 4.5 days
FCE	27130		28200	

½

FCE

% change in FCE (28200-27130)	<u>1070</u> x 100 = 3.9%		27130	
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½

Occupancy

	97/98		98/99	
Available bed days	465 x 365 =	169725	445 x 365 =	162425

% occupancy

<u>patient days</u> available beds	<u>135650</u> x 100 = 79.9%		<u>126900</u> x 100 = 78.1%	
	169725		162425	

1

% change in beds

o	<u>20</u> x 100 = -4.3%		465	
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½

Operations

% operations cancelled	97/98		98/99	
<u>Cancelled x 100</u> Number held	<u>120</u> x 100 = 1.46%		<u>150</u> x 100 = 1.79%	
	8200		8400	

½

% change in operations
(8400-8200)

<u>200</u> x 100 = 2.44%		8200	
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½

Outpatient attendances

% change in attendances (117640-111000)	<u>-6640</u> x 100 = -5.64%		117640	
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½

Number of complaints

% change in complaints (50-42)	<u>8</u> x 100 = 19%		42	
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½

Increase in provisions 3,700- = 1,000
for liabilities 2,600
and charges
(assume clinical negl. claims)

1/2

Comments on service indicators

- 97% of inpatients are being seen within 12 months, an increase of 7% on the previous year. Thus waiting lists are decreasing. This has been achieved by
 - decreasing ALOS from 5 to 4.5 days
 - increasing the number of operations by 2.44%
 - greater throughput with a 3.9% increase in FCE
- More operations are being cancelled (1.46% to 1.78%)
- Complaints have risen by 19%, could this be linked with the increase in liabilities and charges?
- The number of beds have reduced by 20 (4.3%) in an attempt to control costs
- 90% of outpatients are being seen within 26 weeks, an increase of 3% on the previous year, and waiting times at clinics have remained the same. However attendances have fallen by 5.64% why?

1/2 mark per point to a maximum of 4

Financial performance

	97/98	98/99	Cum	
Break-even	£000	£000	£000	
	(165)	60	(105)	1/2
	97/98	98/99		
Capital cost absorption duty	£000	£000		
PDC	18,530	18,530		
RR	2,135	3,240		
I & E	3,170	3,230		
Loans	13,710	12,980		
	<hr/> 37,545	<hr/> 37,980		
Average	37,763			
Total debt redemption	1,495 +	885 =	2,380	
Capital cost absorption	<hr/> 2,380 x	100 =	6.3%	
rate				1 1/2
	37,763			

	97/98	98/99	
Mgmt costs as % of exp	$\frac{2,410}{74,455} \times 100 = 3.2\%$	$\frac{2,403}{79,025} \times 100 = 3.0\%$	1/2
CA:CL	97/98	98/99	
	£000	£000	
Stock	1,835	1,870	
Debtors	5,030	4,720	
Cash	<u>3,645</u>	<u>6,040</u>	
	10,510	12,630	
Creditors	7,225	8,320	
	1.45	1.52	1/2
Acid test	97/98	98/99	
	£000	£000	
Debtors	5,030	4,720	
Cash	<u>3,645</u>	<u>6,040</u>	
	8,675	10,760	
Creditors	7,225	8,320	
	1.20	1.29	1/2
Stock turnover (days)	97/98	98/99	
	$\frac{1835}{18615} \times 365 = 36$	$\frac{1870}{18965} \times 365 = 36$	1/2
Public sector payment policy	97/98	98/99	
Bills paid	$\frac{123640}{137385} \times 100 = 90\%$	$\frac{119230}{125505} \times 100 = 95\%$	1/2
Total bills	137385	125505	
% Change in income (80900-75540)/75540	7.1%		1/2
% Change in expend (79025-74455)/74455	6.1%		

Comments on financial performance

- The trust has over achieved its break-even target by £60,000 in 1998/99, turning around a trust deficit of £165,000 in 1997/98.
- The trust has over achieved the capital cost absorption duty (CCAD), achieving 6.3%
- Management costs have reduced from 3.2% to 3.0% of expenditure

- The trust is currently paying 95% of bills within 30 days, a significant improvement on the previous year of 90%
- Stock holding remains at 36 days which seems reasonable
- Liquidity ratios show the trust is too liquid with significant cash balances
- Income has increased by a higher percentage (7.1%) than expenditure (6.1%) over the year.

½ mark per point to a max of 4

Conclusions

- Castlefield has met its objective of reducing waiting list times whilst keeping costs under control, however quality of provision may have suffered slightly.
- It has also met its financial targets.

*1 mark per point to a maximum of 2
1 mark for presentation*

(b) Performance indicators

- no and type of complaints
- death rates after surgery
- readmission rates

Other initiatives

- self review through clinical audit
- patient focus groups
- satisfaction surveys (staff, patients, family members)
- suggestion cards
- communication with CHC, PCG's

*½ marks per point to a maximum of 3 marks
(25)*

Question 3

(a)

Bradshire NHS Trust
Statement of Financial Activities for the year ended 31 March 1999

	£	£	£	
	Unrestricted Funds	Restricted Funds	Total Funds Ref	
Incoming resources				
Donations	118,629	82,958	201,587	(T.B) ½
Legacies	-	7,500	7,500	(note 5) ½
Investment income	13,467	12,175	25,642	(W.1) 1
Income from fundraising events	7,080	2,900	9,980	(W.2) 1½
Other incoming resources	<u>3,517</u>	<u>1,894</u>	<u>5,411</u>	(note 8) ½
Total Incoming resources	<u>142,693</u>	<u>107,427</u>	<u>250,120</u>	
Resources expended				
Direct charitable expenditure	10,465	9,522	19,987	(T.B) ½
Other Expenditure				
Fundraising and publicity	17,612	8,643	26,255	(W.3) 2½
Management and admin	<u>12,315</u>	<u>6,631</u>	<u>18,946</u>	(note 8) ½
Total other expenditure	29,927	15,274	45,201	
Total resources expended	40,392	24,796	65,188	
Net incoming resources	102,301	82,631	184,932	
Gains/losses on investment assets:				
Realised	360	140	500	(W.4) 1½
Unrealised	<u>5,052</u>	<u>800</u>	<u>5,852</u>	(W.5) 2
Net movement in funds	107,713	83,571	191,284	
Fund balances b/f at 31 March 1998	262,412	100,393	362,805	(T.B) ½
Fund balances c/f at 31 March 1999	<u>370,125</u>	<u>183,964</u>	<u>554,089</u>	

(11½)
Presentation 1½

Working 1

	Unrestricted	Restricted	Total	
Per trial balance	12,102	11,440	23,542	½
Income tax £2100 (note 4)	<u>1,365</u>	<u>735</u>	<u>2,100</u> split 65:35	½
Total	13,467	12,175	25,642	

Working 2

	Unrestricted	Restricted	Total	
Note 10	1,820		1,820	½
Note 3		2,900	2,900	½
Per trial balance – fundraising	<u>5,260</u>	<u>2,900</u>	<u>5,260</u>	½
	7,080	2,900	9,980	

Working 3

Per trial balance	10,405			
Less restricted funds (note 9)	<u>(1,060)</u>			
	9,345			½

	Unrestricted	Restricted	Total	
Split 65:35	6,074	3,271	9,345	(note 9) ½
Fete expenditure		1,060	1,060	½
Unpaid invoice	450		450	(note 10) ½
Professional fees				
262,412 = 72%	11,088		11,088	(note 1) ½
100,393 = 28%		<u>4,312</u>	<u>4,312</u>	
Total	17,612	8,643	26,255	

Working 4

Asset disposals

	Sale price	Market value at 1 April 1998	P/L	Holding	Total	
Scratchings plc	148p	141p	7p	6,000	420	½
Dracma plc	213p	211p	2p	4,000	<u>80</u>	½
Net					500	

	Unrestricted	Restricted	Total	
Split (note 7)	360	140	500	½

Working 5

Unrealised gains on investments held

	Carrying Value	Market Value	Gain	
Scratchings plc	19,740 (14000 shares)	20,720		
Dracma	78,070 (37000 shares)	78,810		
Rafter	5,690	6,828		
Total	<u>103,500</u>	<u>106,358</u>	2,858	<i>1</i>
Split	Unrestricted	Restricted		
	2,058	800	note 7	<i>1/2</i>
Note 2	<u>2,994</u>	<u> </u>		<i>1/2</i>
Total	5,052	800		

(b)

Bradshire NHS Trust
Balance sheet as at 31 March 1999

	£	£	£
<u>Fixed assets</u>			
Tangible assets			204,744 (W.1) 1
Investments			<u>357,858</u> (W.2) 2½
Total fixed assets			562,602
<u>Current assets</u>			
Stocks	800		(T.B) ½
Debtors	7,470		(W.3) 2
Cash	3,141		(W.4) 2½
<u>Current Liabilities</u>			
Creditors: amounts within 1 year	<u>(19,924)</u>		(W.5) 1
Net current liabilities			(8,513)
Net assets			<u>554,089</u>
Capital Funds:			
Income funds:			
Restricted		183,964	(W.6) ½
Unrestricted		<u>370,125</u>	(W.6) ½
Total Funds		<u>554,089</u>	

(10½)
Presentation 1½

Working 1

	£	
Per trial balance	201,750	½
Revaluation	<u>2,994</u>	½
	204,744	

Working 2

		£	
Investments per T.B		325,400	½
Disposals:			
Scratchings plc	141p x 6,000 =	(8,460)	½
Dracma plc	211p x 4,000 =	(8,440)	½
Purchases:			
Gramah plc	310p x 15,000 =	<u>46,500</u>	½
		355,000	
Unrealised gains		<u>2,858</u>	½
Total		357,858	

Working 3	Debtors	
	£	
Per T.B	650	1/2
Note 3	2,900	1/2
Note 10	1,820	1/2
Note 4	<u>2,100</u>	1/2
	7,470	

Working 4		Cash	
		£	
Per trial balance		24,741	1/2
Legacy		7,500	1/2
Sales:			
Scratchings plc	148p x 6,000	8,880	1/2
Dracma plc	213p x 4,000	8,520	1/2
Purchases:			
Gramah	310p x 15,000	<u>(46,500)</u>	1/2
		3,141	

Working 5	£	Creditors > 1 year	
Per T.B	19,474		1/2
Note 10	<u>450</u>		1/2
	19,924		

Working 6	Unrestricted	Restricted	Total	
Net movement in funds	107,713	83,571	191,284	1/2
Fund per TB	<u>262,412</u>	<u>100,393</u>	<u>362,805</u>	1/2
	370,125	183,964	554,089	

Question 4

Denton NHS Trust

Cashflow statement for year ending 31 March 1999

Operating activities	£(000)	£(000)	
<i>Net cash inflow from operating activities(note 1)</i>		8,384	<i>1/2</i>
Returns on investments and servicing of finance			
Interest received (20 + 340- 60)	300		<i>1</i>
Interest paid (210 + 4730 – 200)	<u>(4,740)</u>		<i>1</i>
<i>Net cash (outflow) from returns on investments and servicing of finance</i>		(4,440)	
Capital expenditure			
Payments to acquire fixed assets	(2,700)		<i>2 (see W1)</i>
Receipts from sale of fixed assets	<u>1,917</u>		<i>1 (see W2)</i>
<i>Net cash (outflow) from capital expenditure</i>		(783)	
Dividends paid		<u>(3,395)</u>	
<i>Net cash (outflow) before management of liquid resources and financing</i>		(234)	<i>1/2</i>
Management of liquid resources			
Sale of investments	<u>100</u>		
<i>Net cash inflow from management of liquid resources</i>		<u>100</u>	<i>1/2</i>
Net cash outflow before financing		(134)	
Financing			
Government loans received	3,320		<i>1 (See W3)</i>
Government loans repaid	<u>(2,800)</u>		<i>1/2</i>
Net cash inflow from financing		<u>520</u>	
Increase in cash		<u>386</u>	
			(8)

Working 1

	£000	
Buildings		
Opening value	100,000	
Indexation at 2%	<u>2000</u>	<i>1/2</i>
	102,000	
Depreciation (Life of 60 years)	<u>1,700</u>	<i>1/2</i>
	100,300	
Closing value	<u>103,000</u>	
Purchases by difference	2,700	<i>1</i>

Ignore AICC as represented by creditors

Working 2

	£000	
Land		
Opening value	7,800	
Indexation at 1.5%	<u>117</u>	1/2
	7,917	
Closing value	<u>6,000</u>	1/2
Disposals by difference	1,917	

Working 3

	Opening £000	Closing £000
Loan instalment	2,800	2,920
Loan	<u>58,600</u>	<u>59,000</u>
	61,400	<u>61,920</u>
Repaid	(2,800)	
	<u>58,600</u>	
Taken out	3,320	

(b)

Reconciliation of operating surplus to net cash inflow from operating activities

	£000	
Operating surplus before interest	7,918	2 (see w4)
Depreciation charge (1700 w1+1176 w5)	2,876	2 (see w5)
Transfer from donation reserve	(420)	1 (see w6)
Increase in stocks (4910-2900)	(2,010)	1/2
Decrease in debtors and prepayments (see w7)	1,450	1
Decrease in creditors, accruals and provisions (see W8)	<u>(1,430)</u>	1 1/2
Net cash inflow from operating activities	8,384	(8)

Working 4

	£000	
Operating surplus before interest	7,918	
Interest receivable	340	1/2
Interest payable	(4,730)	1/2
PDC dividends	(3,395)	1/2
Retained for year (403-270)	<u>133</u>	1/2

Working 5

	£000	
Equipment		
Opening GCC	39,800	
Indexation at 5%	<u>1,990</u>	<i>1/2</i>
	<u>41,790</u>	
Opening depreciation	28,600	
Indexation at 5%	<u>1,430</u>	<i>1/2</i>
	30,030	
Depreciation (41790-30030)/10	<u>1,176</u>	<i>1/2</i>
Closing depreciation	31,206	
Building (w1)	1,700	<i>1/2</i>

Working 6

	£000	
Transfer to donation reserve (equipment)		
Opening value	4,000	
Indexation at 5%	<u>200</u>	<i>1/2</i>
	4,200	
Depreciation (10 years)	<u>420</u>	<i>1/2</i>
	3,780	

Working 7

Movement in debtors

	Opening £000	Closing £000	Movement £000	
Debtors	9,500	8,120		
Prepayments	540	470		<i>1</i>
	<u>10,040</u>	<u>8,590</u>	1,450	

Working 8

Movement in creditors

	Opening £000	Closing £000	Movement £000	
NHS Revenue	2,520	3,240	720	
Accruals	3,100	2,180	(920)	
Provisions	<u>3,230</u>	<u>2,000</u>	(1230)	
	<u>8,850</u>	<u>7,420</u>	<u>(1,430)</u>	<i>1 1/2</i>

(c)

Reconciliation of net cash flow to movement in net debt

	£000	
Increase in cash in the period	386	<i>1/2</i>
Cash inflow from new debt	(3,320)	<i>1/2</i>
Cash outflow from debt repaid	2,800	<i>1/2</i>
Cash outflow from decrease in liquid resource	<u>(100)</u>	<i>1/2</i>
Change in net debt resulting from cash flows	(234)	
Net debt at 1 April	<u>(61,290)</u>	<i>1/2</i>
Net debt at 31 March	<u>(61,524)</u>	<i>1/2</i>
		(3)

(d)

Analysis of changes in net debt

	As at 1 April 1998	Cash flows	Other changes	As at 31 March 1999	
	£000	£000	£000	£000	
Cash at bank and in hand	10	386	0	396	<i>1</i>
Debt due within one year	(2,800)	2,800	(2,920)	(2,920)	<i>1</i>
Debt due after one year	(58,600)	(3,320)	2,920	(59,000)	<i>1</i>
Current asset investments	100	(100)	0	0	<i>1/2</i>
	<u>(61,290)</u>	<u>(234)</u>	<u>0</u>	<u>(61,524)</u>	<i>1/2</i>
					(4)

(e)

The EFL is the change in net borrowing which has been agreed with the NHSE. *1*

Denton NHS Trust must have been given an approval for a positive EFL, ie an increase in net borrowing for 1998/99 of £234,000 which has achieved. *1*

(2)

(25)

Question 5

Function of Primary Care Groups (p9 of OLM update 99)

- to contribute to the HA's health improvement programme
- to promote the health of the local population
- to commission health services
- to monitor performance
- to develop primary care
- to integrate primary and community services with social services

1 mark per point to a maximum of 4

Development of Primary Care Groups (p2 OLM Update 99)

- level 1 - advisory to the Health Authority
- level 2 – manage a budget for health care as part of the health authority
- level 3 – become established as free-standing bodies accountable to the health authority for commissioning care
- level 4 – become established as free-standing bodies accountable to the health authority for commissioning care with added responsibility for community services

1 mark per point to a maximum of 4

Contracting arrangements (p19 OLM update 98)

- annual contracts have been replaced with long term agreements which are intended to reduce bureaucracy and improve stability
- agreements will be between PCG's and NHS Trusts although HA may act as a direct commissioner
- agreements will be for at least a three year period
- ECRs are replaced with an out of area treatment tariff
- agreements will incorporate explicit quality and efficiency standards
- agreements will be based around programmes of care

1 mark per point up to a maximum of 4

Corporate Governance (p24 OLM update 99, p37 OLM)

- Trust affairs are conducted in accordance with principles of sound corporate governance as recommended by Cadbury, Nolan and national NHS codes (conduct, accountability and openness), and within a framework of standing orders and standing financial instructions.
- Audit committee – a means of independent and objective review of financial systems and information and compliance with law, guidance and codes of conduct.
- Remuneration and terms of service committee – responsible for setting the chief executive directors remuneration.

- Directors statements

statement of chief executive's responsibility as the accountable officer of a trust.

statement of directors' responsibility in respect of annual accounts.

statement of directors' responsibility in respect of internal controls (safeguarding assets against unauthorised use or disposal, maintenance of proper accounting records, and reliability of information).

- The audit committee should be a non-executive committee. There should also be a framework for the review of Internal Audit provision.
- The final point of the section relating to Director's Statements should also involve action, that is conducting an Internal Controls Risk Assessment.

1 mark per valid point to a maximum of 4

PFI schemes (p14 – 16 OLM update 99)

- a PFI project must demonstrate value for money
- the private sector must assume risk (design and construction; commissioning and operating; demand and volume; technology and obsolescence; and financing).
- costing of risk and value for money must be demonstrated by using a public sector comparator
- financing of assets by private sector
- services provided over a long period of time

- assets and services are included in a single contract

1 mark per valid point to a maximum of 4

Health Improvement Programmes (p6 OLM update 99)

- primary vehicles by which health strategy will be delivered at a local level. *1*
- contents will include: objectives, how objectives will be achieved, proposed service changes, plans for achieving waiting list targets, resources required, capital options. *2*
- participating bodies will be PCGs, HAs, NHSTs, local authorities. *1*
- the contents will include objectives **relating to the health needs of the local population**
- participating bodies also include:
Other primary care professionals, such as dentists and opticians
The public

Presentation 1

(25)