

FINANCIAL REPORTING IN THE HEALTH SERVICE

Professional 2 examination 6 June 2000

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 trial balance relates to Ashfordly NHS Trust for the year ending 31 March 2000.

	£000	£000
Public dividend capital		51,500
Short term investments	5	
Provisions for liabilities and charges		5,000
Other loans		16,000
Donation reserve		3,195
Revaluation reserve		6,070
Retained surplus at 31 March 1999		25
Stock	2,810	
Debtors	9,370	
Bank	10	
Creditors		13,230
Capital expenditure	3,390	
Land	7,200	
Buildings		
purchased	66,080	
donated	1,665	
Equipment		
purchased	30,700	
donated	4,510	
Equipment accumulated depreciation at 1 April 1999		
purchased		22,000
donated		2,980
Interest received		630
Interest paid	780	
Public dividend capital dividends	3,285	
Income from health authorities		95,750
Income from primary care groups		19,300
Capital receipts		15
Income from private patients		1,970
Other income		28,880
Miscellaneous costs	7,800	
Salaries and wages	95,800	
Establishment costs	1,880	
Transport costs	300	
Premises costs	6,830	
Supplies and services	20,870	
Other costs	3,260	
	<u>266,545</u>	<u>266,545</u>

- (i) Capital expenditure for the year purchased by the Trust is detailed below. The Trust also acquired some donated items which have not been recorded in the trial balance.

	Purchased £000	Donated £000
Buildings	1,890	200
Equipment	1,250	420
Assets in the course of construction	250	

- (ii) Depreciation for the year has not been accounted for in the trial balance. The amounts were as follows:

	Purchased £000	Donated £000
Buildings	2,650	55
Equipment	3,075	390

- (iii) Indexation for the year has not been accounted for in the trial balance. The amounts were as follows:

	Purchased £000	Donated £000
Land	1,320	
Buildings	4,530	120
Equipment	770	110
Equipment depreciation	562	75

- (iv) Revaluation for the year has not been accounted for in the trial balance. The amounts were as follows:

	Purchased £000	Donated £000
Land	120	
Buildings	3,105	85

- (v) Equipment sold during the year generated a capital receipt which has been accounted for, however the assets have not been written out of the accounts. The information relating to the assets were as follows:

	Purchased £000	Donated £000
Equipment	3,260	210
Equipment depreciation	3,250	210
Capital receipt	12	3

(vi) Balances at 1 April 1999 were:

	£000
Stock	2,470
Debtors	8,000
Creditors	14,050
Investments	805
Loans	16,640
Bank/Cash	30

• **Requirement for question 1**

- | | |
|---|------|
| (a) Prepare the income and expenditure account for the year ending 31 March 2000. | 5 |
| (b) Prepare the balance sheet as at 31 March 2000. | 13 |
| (c) Prepare the cash flow statement and reconciliation of operating surplus to net cash inflow from operating activities for the year ending 31 March 2000. | 7 |
| | (25) |

2

Redfern NHS Trust is a medium sized trust that delivers a range of services to the local population. It is the major specialist renal provider in the region.

The Capital Finance Committee of the Trust is due to meet to consider the options for providing a large piece of renal dialysis equipment. There are several options available and information on the two favoured options is presented below:

Option 1

Purchase of the dialysis of equipment. Initial cost £300,000.

The expected life of the equipment is 5 years and it is expected that at the end of this term it could be sold for £15,000.

Option 2

Lease of the equipment from a leading supplier. The annual lease payments would be £63,000 per annum over a lease term of 5 years.

National loans fund rate is 6%.

• Requirement for question 2

You are required to prepare a paper ready for presentation to the Capital Finance Committee that:

- | | |
|---|------|
| (a) Includes an appraisal of the options available and a recommendation as to the preferred option; | 5 |
| (b) Explains how the preferred option will be treated in the accounts of the Trust; and | 12 |
| (c) Considers how the capital acquisition may impact upon the revenue position of the Trust. | 8 |
| | (25) |

Discount Rates

Year	6%	7%	8%
1	.943	.935	.926
2	.890	.873	.857
3	.840	.816	.794
4	.792	.763	.735
5	.747	.713	.681

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

With the demise of the old internal market system, the legacy of Healthcare Resource Groups (HRGs) lives on. Once used as the basis for NHS Trust ECR tariffs they now have an even bigger role to play.

- **Requirement for question 3a**

- (i) Explain what 'Healthcare Resource Groups' are. 3
- (ii) Explain how HRGs are being used to assess NHS performance and raise standards. 4
- (iii) Identify the issues to be addressed if the costing information produced, based on HRGs, is to be credible. 5

(b)

Performance indicators can be used by commissioners in order to help them make decisions as to which Trust to purchase services from in situations where they have a choice. You work in the commissioning department of a medium sized health authority and have been presented with the following data in respect of paediatric services for three trusts in the local area:

Paediatric Service	Wells Trust		Shole Trust		Drume Trust	
	1998/99	1999/00	1998/99	1999/00	1998/99	1999/00
Finished consultant episodes	10,471	11,241	7,423	9,421	3,457	3,678
Direct patient care spend	£2,784,102	£2,894,120	£2,471,812	£2,644,100	£1,021,078	£1,198,432
Management costs	£81,251	£91,422	£72,888	£70,124	£30,122	£32,122
Number of consultants in post	8	9	8	8	4	3
Scheduled theatre sessions per year	1,642	1,680	841	829	351	365
Emergency admissions	8,642	10,200	2,295	2,421	0	0
Occupied bed days	50,412	52,612	39,754	41,524	3,752	4,120
Cancelled theatre sessions per annum	30	33	18	15	10	10
Waiting time in days	41	39	56	63	39	41

- **Requirement for question 3b**

You are required to analyse and comment on the above data pointing out any limitations in its interpretation and use.

13

(25)

4

The Business Manager of the Surgical Directorate at Roamshire NHS Trust has just received her directorate summary for month 9.

**Surgical Directorate Summary (subjective)
Month 9**

Description	Annual budget £000	Budget for month £000	Expenditure in month £000	Cumulative budget £000	Expenditure to date £000	Variance £000
Pay						
Medical staff	410.00	34.17	32.76	307.53	306.41	(1.12)
Nursing staff	2580.00	215.00	273.00	1935.00	2237.00	302.00
Technical staff	320.00	26.67	26.60	240.03	239.60	(0.43)
Clerical staff	168.00	14.00	12.40	126.00	114.00	(12.00)
Domestic staff	154.00	12.83	13.05	115.47	130.20	14.73
Total pay	3632.00	302.67	357.81	2724.03	3027.21	303.18
Non Pay						
MSSE	500.00	41.67	52.16	375.03	384.01	8.98
Drugs	620.00	51.67	49.03	465.03	401.40	(63.63)
Provisions	120.00	10.00	10.10	90.00	91.00	1.00
Other consumables	85.00	7.08	5.20	63.72	51.70	(12.02)
Central admin overhead	220.00	18.33	0.00	164.97	110.00	(54.97)
Capital charges	140.00	11.67	0.00	105.03	0.00	(105.03)
Diagnostic service charge	260.00	21.67	0.00	195.03	93.77	(101.26)
Total non pay	1945.00	162.09	116.49	1458.81	1131.88	(326.93)
Total	5577.00	464.76	474.30	4182.84	4159.09	(23.75)

In looking at the statement she is confused to find that despite having been concerned about the impact of the recent flu outbreak, particularly on staffing costs, the Directorate is showing a comfortable under spend. She does not normally bother the Finance Department but on this occasion she decides to arrange a meeting with you, their Directorate Accountant, to discuss the situation.

During the meeting the following becomes apparent:

- (i) There is a nursing pay award of 3% due from 1 April that has not yet been input to the budget due to staff shortages in the Finance Department. Staff already receive the increased pay levels.
- (ii) The Central Admin charge is for the administrative functions of the Trust and the amount of budget is determined centrally. This is charged in two instalments, mid way and at the end of the year. The mid way instalment reflects the original budget allocation. The final instalment, however, is variable dependent on the amount of actual central administration charge

expenditure at the year end. This expenditure is charged to service directorates according to overall budget size. It is expected that there will be an overall 2% over spend on this expenditure.

- (iii) The capital charges are charged to the directorate summary reports at the end of each financial year. Although part of this charge reflects equipment in the Directorate, the large majority represents land and buildings. The Business Manager is unaware of the way the charges are calculated.
- (iv) The diagnostic services relate to those services that are used by the directorates to support the services they provide (such as physiotherapy, radiography etc). They are based on a recharge system that is controlled by the Finance Department. The amount charged is determined by the use made of these services during each month. However, statistics are difficult to collect and the Finance Department is currently 5 months behind in allocating these charges to directorates. The Business Manager believes that their use of these services has remained constant throughout the year.
- (v) Medical and surgical equipment valued at £23,000 has been received in the Directorate but is not included in the statement.

- **Requirement for question 4**

Prepare a brief report to the Director of Finance that:

- (a) Comments on the Directorate Summary after taking account of the above findings; 8
- (b) Outlines the weaknesses in the present method of budgetary reporting and makes suggestions as to how budgetary control systems should be organised in order to provide Business Managers with more effective information; and 12
- (c) Outlines the benefits that may be gained at an organisation and directorate level if your recommendations are implemented. 5

(25)

5

As a recently qualified accountant you have been asked to present a talk covering NHS financial reporting to the latest group of national NHS trainees as part of their introductory course to CIPFA. During a discussion with the course organiser you made the following notes to assist you in planning the session.

- | | | |
|-------|---|---|
| (i) | New employees to the NHS generally have a poor understanding of how funds flow through the NHS. This needs to be clarified. | 5 |
| (ii) | Most students are familiar with company reporting. It would therefore be useful to highlight the objectives of public service accounting and how they differ from private sector companies. | 4 |
| (iii) | It would be helpful as a reminder to students to cover the characteristics of creditable financial information. | 3 |
| (iv) | There are numerous influences on the presentation and content of financial information in the NHS – students need to be aware of them. | 4 |
| (v) | What are the main financial statements an NHS Trust is required to produce? Indicate the main differences to that of a public limited company. | 4 |
| (vi) | Students need to understand the key financial performance indicators of NHS trusts and should be aware of the different organisations which monitor them. | 4 |
| | Presentation | 1 |

- **Requirement for question 5**

Prepare a paper suitable for distribution to the students.

Marks allocated as above (25)