

# Understanding hospital and other financial documents

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# Introduction

We are:

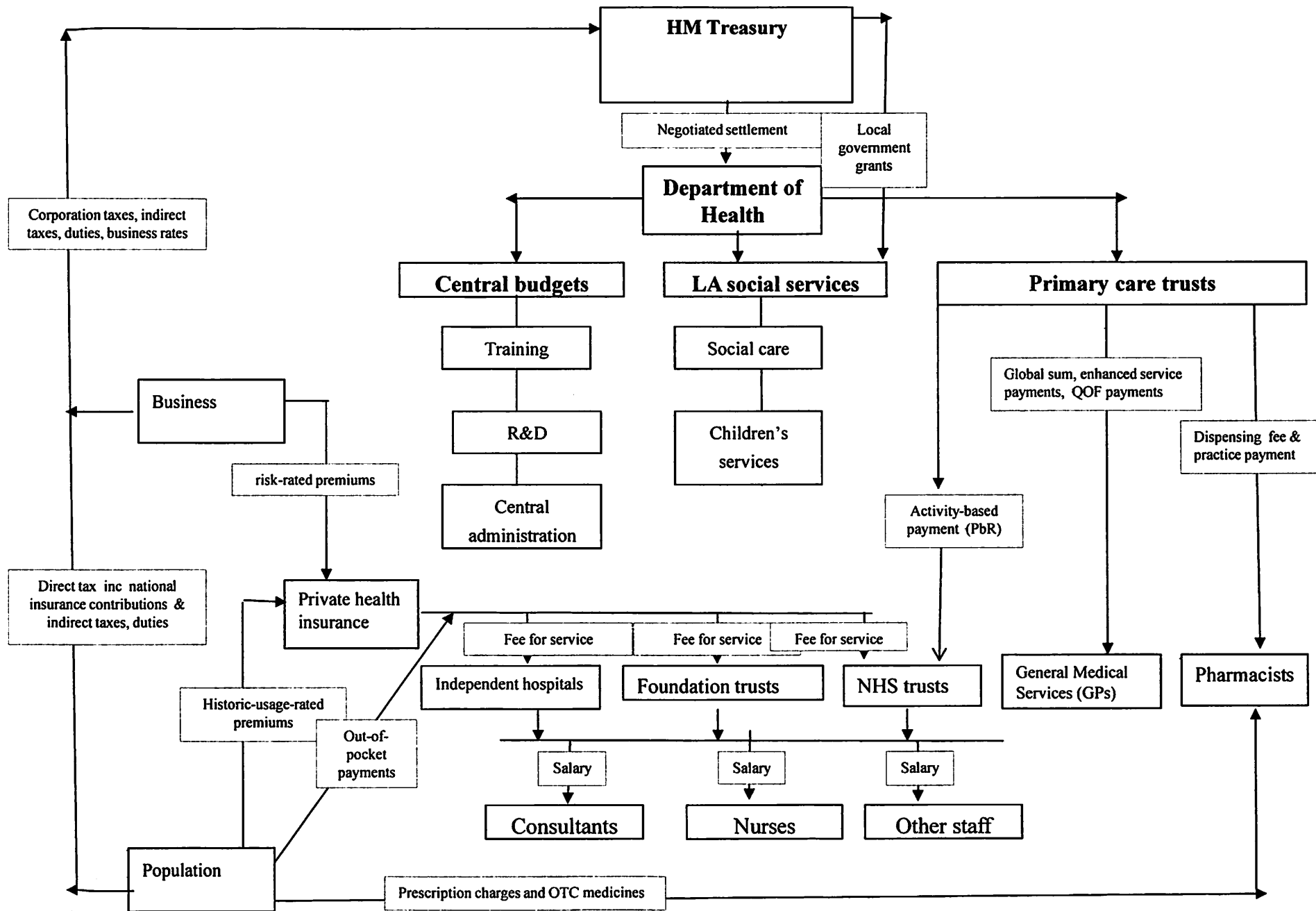
- Sean Boyle - economist ; previously adviser to parliamentary health select committee; author of Health System Review England
- Roger Steer - previously NHS CEO & Finance Director; now management consultant; tutor on NHS Finance for IHSM

# Outline

- Introduction
- Macro level - financial flows in the health care sector
- Micro level – introduction to NHS accounts
- Understanding - some examples
  - London reconfiguration
  - Competition

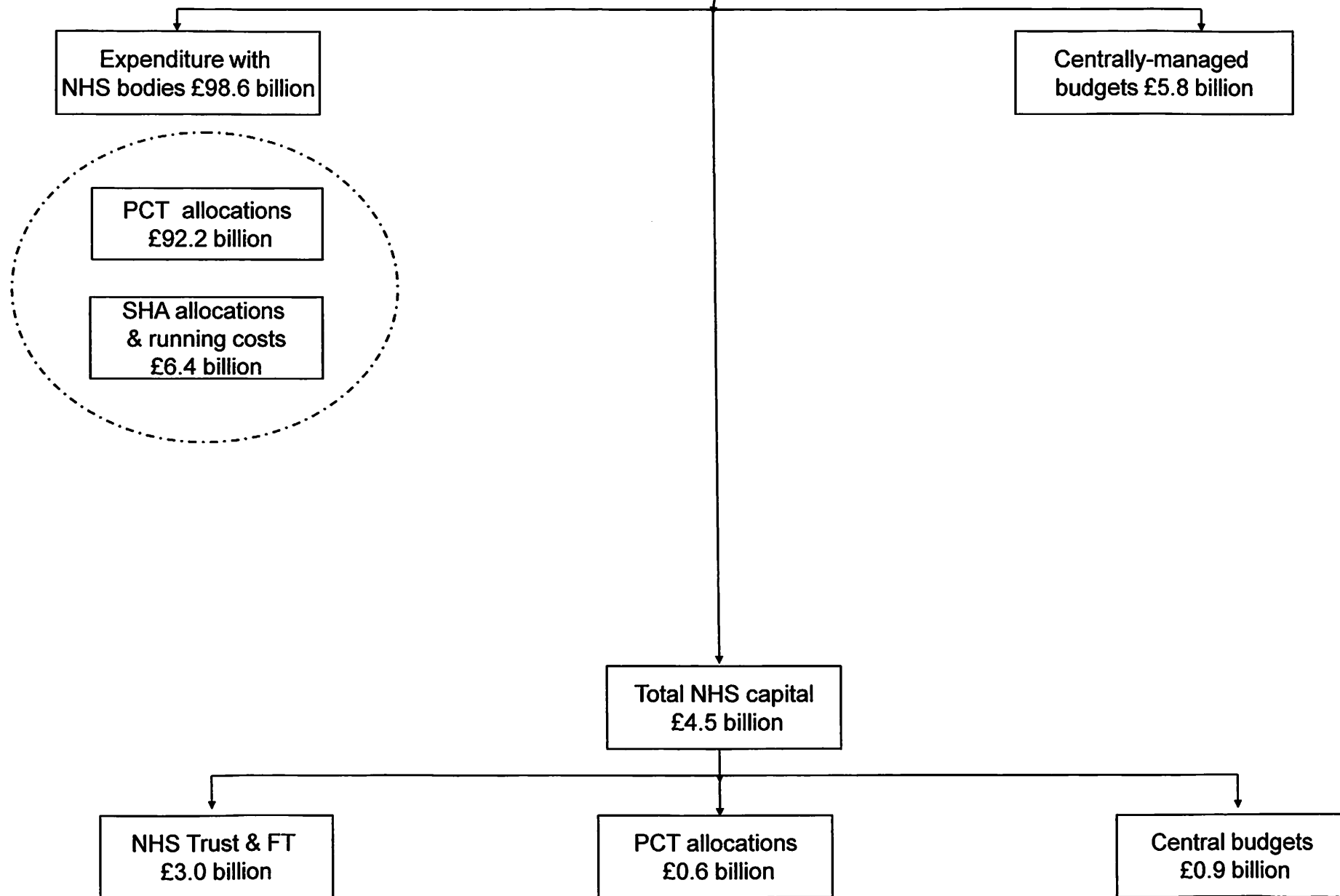
# Financial flows in the NHS

- Treasury
- Taxation base
- Department of Health
- Allocation of budgets
- Payments to hospitals
- Payments to primary care
- Private sector
- Payments to staff



Total departmental expenditure limit, 2012/13

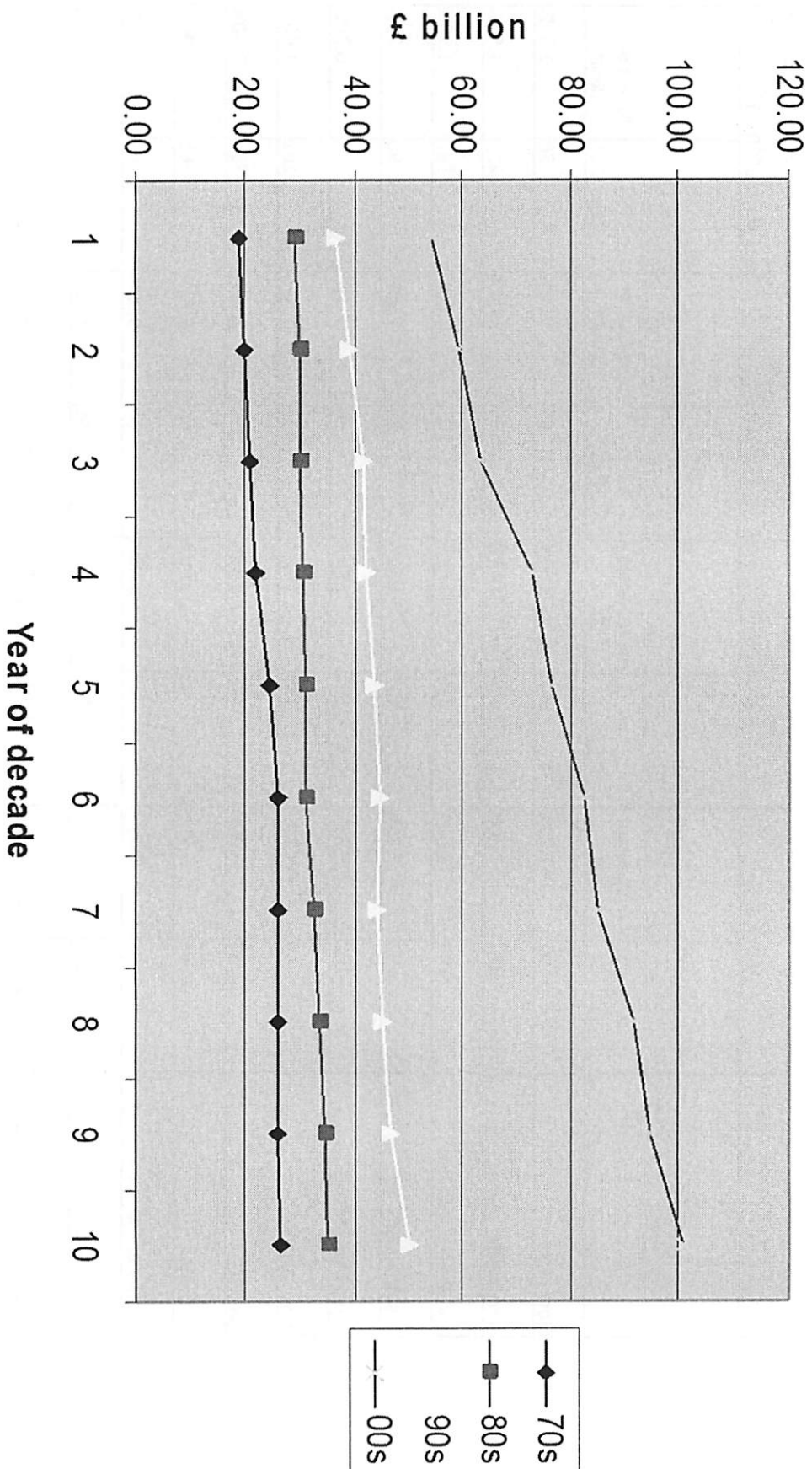
£108.8 billion



# Quarterly reporting: PCT /SHA final accounts

	2007/08		2008/09		2009/10		2010/11	
	£m	% resource limit	£m	% resource limit	£m	% resource limit	£m	% resource limit
North East	96	2.20%	109	2.30%	80	1.60%	70	1.30%
North west	273	2.30%	295	2.40%	185	1.40%	215	1.50%
Yorkshire & Humber	243	3.00%	216	2.50%	185	2.00%	187	1.90%
East Midlands	94	2.10%	107	1.60%	83	1.20%	90	1.20%
West Midlands	102	2.30%	101	1.20%	80	0.80%	73	0.70%
East England	59	1.30%	139	1.70%	137	1.50%	101	1.00%
London	238	5.40%	327	2.30%	382	2.40%	392	2.30%
SE Coast	51	1.20%	62	1.00%	50	0.70%	65	0.90%
South Central	37	0.80%	44	0.80%	60	0.90%	67	1.00%
South West	101	2.30%	104	1.30%	95	1.10%	115	1.30%
<b>Total</b>	<b>1,294</b>	<b>1.70%</b>	<b>1,504</b>	<b>1.80%</b>	<b>1,337</b>	<b>1.50%</b>	<b>1,375</b>	<b>1.40%</b>

# Real NHS net spend 1970 - 2010

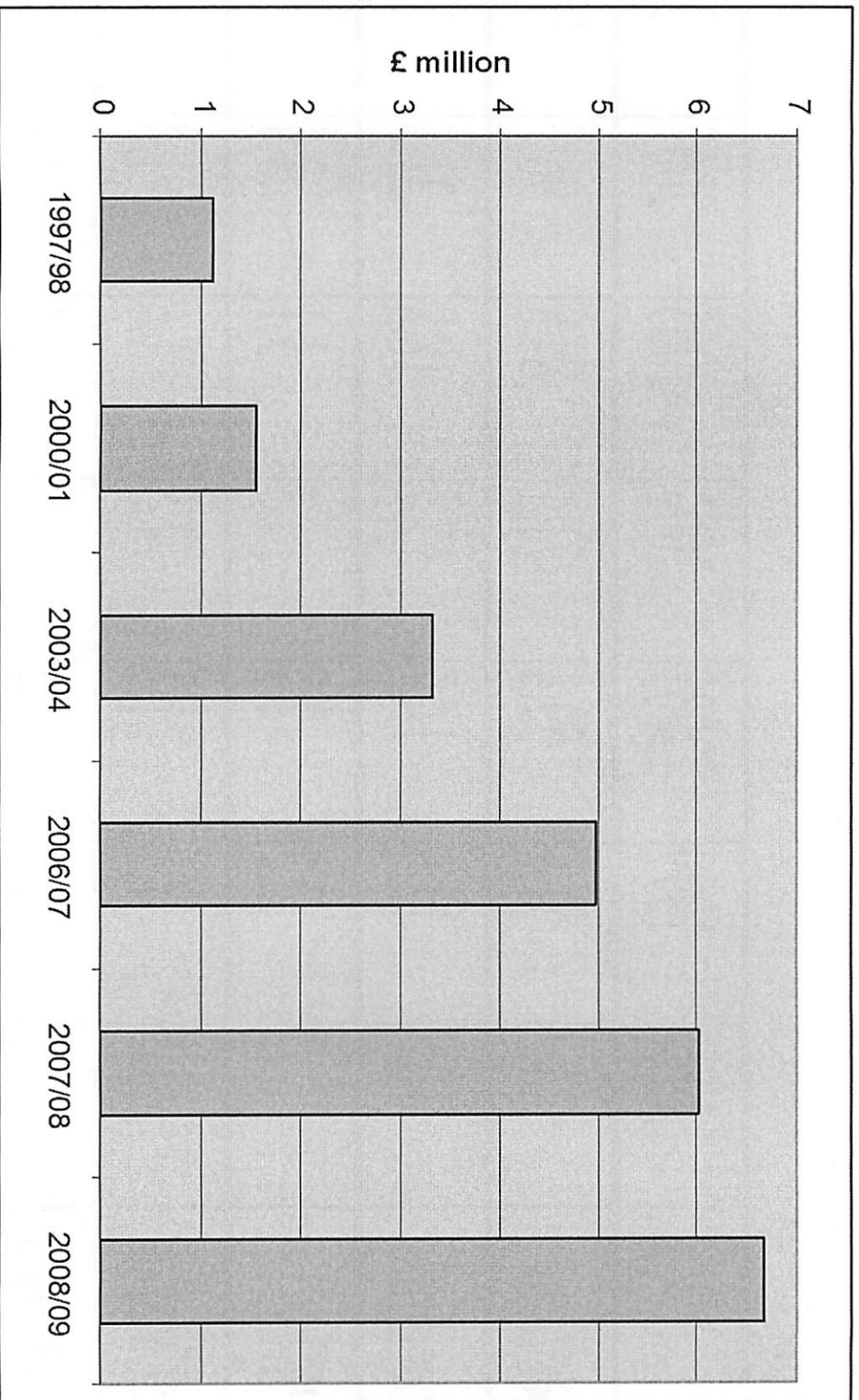




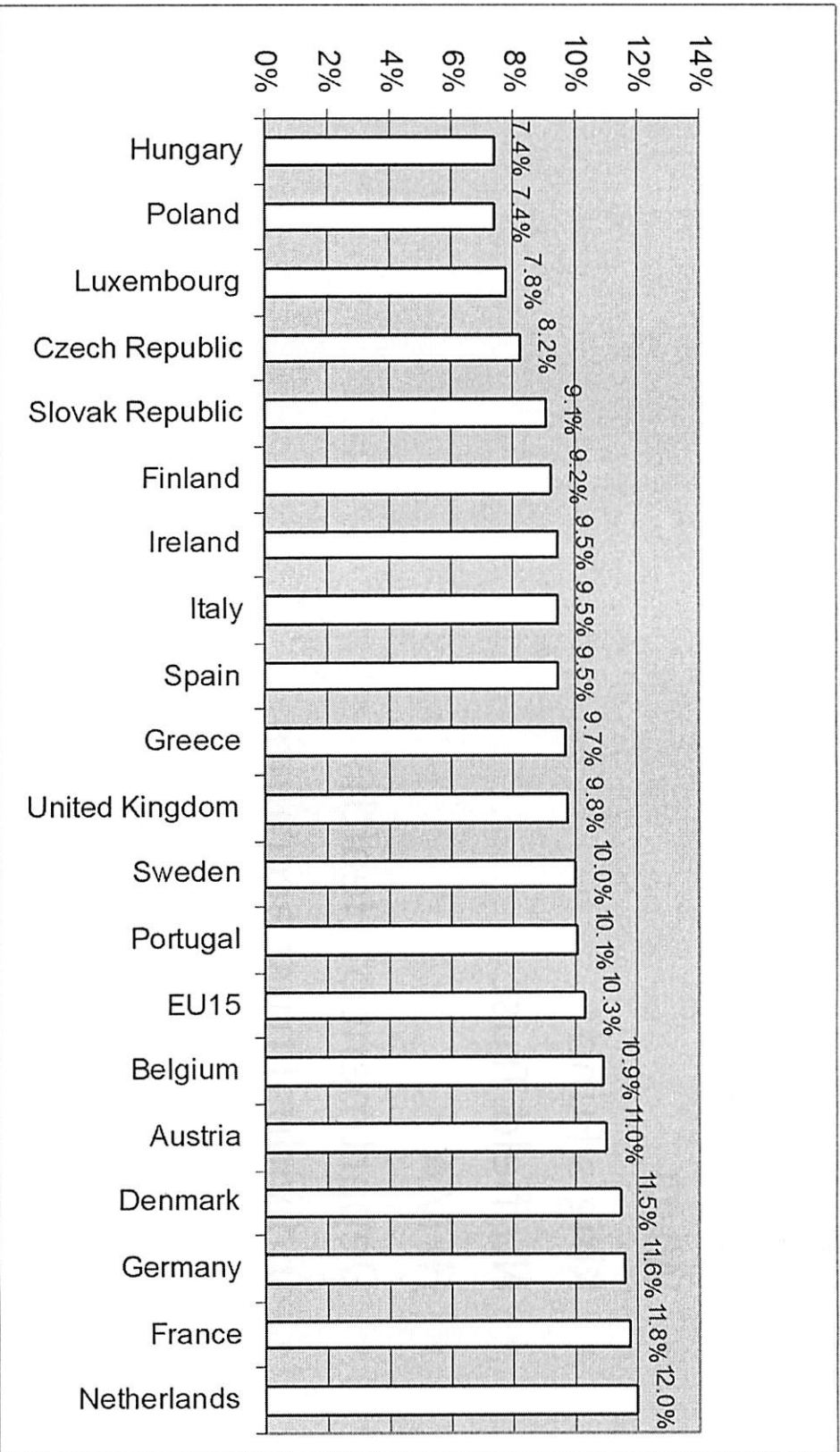
# UK expenditure on health care by source, 1997 -2008

£ billion	1997	1999	2001	2003	2005	2007	2008
Public Expenditure	44.2	51.8	59.4	71.1	84.8	96.7	103.6
Private Expenditure	10.8	12.5	14.9	17.7	18.8	21.3	21.8
of which: PMI	2	2.2	2.7	3	3.1	3.4	3.6
Individual Market	1.1	1.1	1.3	1.5	1.6	1.8	n/a
Corporate Market	1	1.1	1.4	1.4	1.5	1.6	n/a

# NHS expenditure in private sector, 1997/98 – 2008/09



# Total health expenditure as a proportion of GDP: comparison between EU countries, 2009



# Sources of information

- OECD
- EUROSTAT
- WHO
- King's Fund
- Nuffield Trust
- HFMA
- Department of Health
- Individual trust accounts

But the gaps in official information can be the most revealing

# Micro level – NHS trust accounts

## **What do we mean by Accounts?**

- Annual Statement of income and expenditure
- Balance sheet at the end of year
- Statement of Cash Movements
- Audit Certificate
- Annual report
- Notes and ancillary information

# Consolidated statement of comprehensive income for the year ended March 31 2011

		March 31 2011	March 31 2010
	NOTE	£000	Restated* £000
Operating income	4.1	715,481	676,008
Other operating income	5	276,857	267,293
Operating expenses	6.1	<u>(953,767)</u>	<u>(921,809)</u>
<b>OPERATING SURPLUS</b>		<b>38,571</b>	<b>21,492</b>
<b>FINANCE COSTS</b>			
Finance income	11	838	782
Finance expenses – unwinding of discount on provision	12	(293)	(211)
Public Dividend Capital dividend payable		<u>(20,905)</u>	<u>(20,215)</u>
<b>Net finance costs</b>		<b>(20,360)</b>	<b>(19,644)</b>
Share of operating loss in joint ventures	9	(329)	–
Corporation Tax	13	<u>(2)</u>	<u>(1)</u>
<b>SURPLUS FOR THE YEAR</b>		<b>17,880</b>	<b>1,847</b>
<b>Other comprehensive income</b>			
Revaluation gains and impairment losses on intangible assets		–	78
Revaluation losses and impairment losses on property, plant and equipment		(4,296)	(17,008)
Increase in the donated asset reserve due to receipt of donated assets		10,038	4,146
Reduction in the donated asset reserve in respect of depreciation, impairment, and/or disposal of donated assets		(5,135)	(9,304)
Movement between reserves		(136)	(323)
Transfers to income in respect of assets disposed			(480)
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR</b>		<b><u>18,351</u></b>	<b><u>(21,044)</u></b>

The notes on pages 80 to 100 form part of these accounts.

\* The prior year has been restated to reflect merger accounting. See notes 2, 3, 4, 5, 6 and 7

# Statement of financial position

as at March 31 2011

	NOTE	GROUP		TRUST	
		March 31 2011 £000	Restated* March 31 2010 £000	March 31 2011 £000	Restated* March 31 2010 £000
<b>NON CURRENT ASSETS</b>					
Property plant and equipment	15	861,209	838,854	861,209	838,854
Intangible assets	16	27,286	20,000	27,074	19,959
Trade and other receivables	21.2	2,360	2,093	3,605	3,245
<b>TOTAL NON-CURRENT ASSETS</b>		<b>890,855</b>	<b>860,947</b>	<b>891,888</b>	<b>862,058</b>
<b>CURRENT ASSETS</b>					
Inventories	20	14,595	14,252	14,595	14,252
Trade and other receivables	21.1	68,546	56,359	68,620	56,411
Tax receivable		589	2,328	589	2,328
Cash and other equivalents	25	100,139	111,911	100,001	111,825
<b>TOTAL CURRENT ASSETS</b>		<b>183,869</b>	<b>184,850</b>	<b>183,805</b>	<b>184,816</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	22.1	(98,183)	(88,482)	(97,959)	(88,403)
Tax payable	22.2	(11,492)	(11,192)	(11,490)	(11,190)
Other liabilities	22.3	(21,624)	(17,444)	(21,624)	(17,444)
Provisions	23.1	(2,475)	(2,254)	(2,475)	(2,254)
<b>TOTAL CURRENT LIABILITIES</b>		<b>(133,774)</b>	<b>(119,372)</b>	<b>(133,548)</b>	<b>(119,291)</b>
<b>NON-CURRENT LIABILITIES</b>					
Other liabilities	22.3	(3,053)	(6,225)	(3,053)	(6,225)
Provisions	23.1	(8,301)	(8,955)	(8,301)	(8,955)
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>(11,354)</b>	<b>(15,180)</b>	<b>(11,354)</b>	<b>(15,180)</b>
<b>TOTAL ASSETS EMPLOYED</b>		<b>929,596</b>	<b>911,245</b>	<b>930,791</b>	<b>912,403</b>
<b>TAX PAYERS' EQUITY</b>					
Public Dividend Capital		355,766	355,766	355,766	355,766
Revaluation reserve		210,714	220,326	210,714	220,326
Donated asset reserve		221,285	216,505	221,285	216,505
Other reserves		743	743	743	743
Income and expenditure reserve		141,042	117,936	142,237	119,094
Merger Reserve surplus/(deficit)		46	(31)	46	(31)
<b>TOTAL TAXPAYERS' EQUITY</b>		<b>929,596</b>	<b>911,245</b>	<b>930,791</b>	<b>912,403</b>

The prior year has been restated to reflect merger accounting. See notes 15 and 22.

# Consolidated cash flow statement for the year ended March 31 2011

	NOTE	March 31 2011 £000	March 31 2010 £000
<b>Cash flows from operating activities</b>			
Operating surplus from continuing operations		38,571	21,492
<b>Non-cash income and expenses</b>			
Depreciation and amortisation		39,073	39,856
Impairments and reversals		4,538	5,104
Transfer from donated asset reserve		(6,810)	(9,304)
Transfer from government grants reserve		(354)	(563)
(Increase)/decrease in trade and other receivables		(12,553)	2,562
Increase in inventories		(343)	(6,723)
Increase/(decrease) in other liabilities		3,860	(2,645)
Increase in trade and other payables		10,677	3,837
(Decrease)/increase in provisions		(1,284)	634
Tax received		2,037	1,112
Other movements in operating cash flows		(641)	–
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b><u>76,711</u></b>	<b><u>55,362</u></b>
<b>Cash flows from investing activities</b>			
Interest received		829	806
Purchase of financial assets		–	(60,000)
Sale of financial assets		–	60,000
Purchase of intangible assets		(10,281)	–
Proceeds from sale of intangible assets		–	24
Purchase of property, plant and equipment		(66,227)	(88,127)
Proceeds from sale of property, plant and equipment		608	–
<b>Net cash generated used in investing activities</b>		<b><u>(75,071)</u></b>	<b><u>(87,297)</u></b>
<b>Cash flows from financing activities</b>			
Public Dividend Capital dividend paid		(20,478)	(20,445)
Donated capital receipts		7,006	5,545
Public Dividend Capital received		–	3,699
<b>NET CASH GENERATED USED IN INVESTING ACTIVITIES</b>		<b><u>(13,472)</u></b>	<b><u>(11,201)</u></b>
<b>Decrease in cash and cash equivalents</b>		<b>(11,772)</b>	<b>(43,136)</b>
Cash and cash equivalents at April 1		<u>111,911</u>	<u>155,047</u>
<b>Cash and cash equivalents at March 31</b>	25	<b><u>100,139</u></b>	<b><u>111,911</u></b>



# NHS Accounts

## **Accounts are very important - Why?**

- Basis of accountability and stewardship
- Demonstrates success or failure
- Strong historical and legal basis
- Format is standardised- similar to private companies
- Will reconcile to internal reporting, monthly budget statements, costing, annual plans.

# NHS Accounts

## **Weaknesses**

- Timeliness
- Will only appear six months after year reported
- Can conceal as much as they reveal
- Needs interpretation, follow-up and understanding of context and terminology
- Lacks comparative information (from similar organisations, nationally and internationally)

# NHS Accounts

## **Formidable – Why?**

- Over 100 pages long, full of dense text and figures and tables
- Can overuse technical vocabulary
- Needs skill and understanding to spot anomalies and curiosities
- Have to be able to understand what to expect, context and background

# NHS Accounts- Guy's and St Thomas'

## **Major Foundation Trust**

- Teaching hospital group
- Turnover around £1 billion
- Assets £900 million
- Charitable assets £500 million
- Cash in Hand £100 million
- Numbers of staff 10,700

# NHS Accounts- Guy's and St Thomas'

## What you can discover

- Size of non-clinical services - 33%
- Opacity of segmental reporting - which activities subsidises which? Are losses being made on non-clinical activity?
- Nurses cut by 400 while operating profits increased by 80%
- Chief executive salary £254,000 – but what was it five years ago?
- Trust has taken over other trusts – including local community services - contrary to the policy objective of introducing competition
- Donated assets at Trust are £220 million
- Cumulative profits £ 142 million
- Clearly a winner – but at whose expense ? Is it related to problems elsewhere in SE London and closure of services at St Mary's Sidcup?
- Was success expected? Some predicted demise of teaching hospitals as too expensive.

# NHS Accounts- Guy's and St Thomas'

## **What you cannot discover**

- Is the trust subsidising London healthcare or is London healthcare subsidising it?
- How much time do the trust's consultants spend supporting the central London private healthcare industry?
- Is it true that the trust is over-hospitalising patients as alleged?
- Details of losses and special payments £6m+!

# NHS Accounts- Guy's and St Thomas'

## **How you should use the accounts**

- Check against what was reported internally at end of year in monthly reports to Board
- Look at historical trends by adding that year's figures to time series of data
- Look at key performance indicators:
  - Operating surplus/loss
  - EBIDTA
  - Cash
  - Investments/loans
  - Qualifications to audit letter
- Search for the anomalous and unexpected eg R&D; post balance sheet events, extent of commercial activities.
- Seek further explanation if necessary
- Look up details on related parties: Medical School accounts; Charitable Funds accounts and commercial partners e.g. pathology joint venture

# To conclude

- There is a lot of information available.
- But it takes some digging to understand and to reveal all.
- This can be supplemented by questions at AGMs, looking at published board papers on the internet or direct questions to the Trust or Local Government Health Scrutiny Committee.



# NHS Accounts- Guy's and St Thomas'

## Challenge

- What can you spot as potential stories in the accounts of Guy's and St Thomas' Hospital ?
- You have 15 minutes.
- Then I will tell you what an accountant might spot.

# Some examples for discussion

- Reconfiguration of hospitals
- Introducing competition to the NHS

# Reconfiguration in London - 1

- The argument has been put for many years that London has too many acute hospitals, and that many of these should be closed.
- This has sometimes been couched as a way of saving money but more recently quality of care and care closer to home have been the prime arguments.

# Reconfiguration in London - 2

- The management consultants McKinsey have played a key part in the drive to close London hospitals.
- There has been an announcement that a hospital in south west London must close.
- We want you to consider:
  - what financial information you would need;
  - who you should talk to;
  - the validity of the arguments put in this selection of material from McKinsey.

# London reconfiguration – is there one answer?

- Dubious and contestable basis for claims that reconfiguration vital
- Solution does not address the likely large costs of London directly
  - London teaching hospitals
  - large private healthcare industry
  - large new hospitals financed through PFI
  - poorly performing primary care
- But does provide a politically neutral way of being seen to do something
- Danger is collateral damage as services closed in outlying areas eg St Mary's Sidcup, St Helier, Whipps Cross, West Middlesex, Chase Farm.
- But running out of time as there will soon be another election.

# Introducing competition to the NHS -1

- It is claimed that the NHS is a quasi monopoly with 85% of the healthcare market.
- And that this makes it susceptible to ***provider capture*** and ***anti –consumer behaviour***.
- The response advocated by many is to introduce ***competition*** into the supply of health services.

# Introducing competition to the NHS -2

**So the question is: will the introduction of competition improve the healthcare provided by the NHS?**

- What do you need to answer this question?
- Do you think financial accounts will be useful in providing answers?
- What other evidence might you look for?

# Competition – issues to consider?

The evidence is often contested

- Pay and conditions of staff compared to other sectors and other countries
- The costs of healthcare compared to other countries
- The quantity and quality of healthcare compared to other countries
- The differences in the outcomes of the NHS following NHS market reforms
- The evidence following the contracting-out of services
- Post-implementation review and academic studies



# Competition – issues to consider?

## How accessible are the facts

- Despite being vital to the assessment of arguments facts are often difficult to obtain.
- Commercial providers withhold information on confidentiality grounds.
- International comparisons are fraught with difficulties with no will to co-operate.
- Quality and outcomes are difficult to assess.

# Competition – issues to consider?

The interpretation of evidence: can academics always be trusted?

- There may be lower costs from contracting-out but this may not represent the best outcome for patients.
- Small changes in data may not signal very much or justify the grand claims that are made.
- Without a satisfactory way of explaining changes in behaviour what is observed by academics may result from the interaction of many factors.

# Competition – issues to consider?

How is the story put over?

- Public vs Private
- NHS Bad vs NHS Good
- Doctors as sinners or saints
- Nurses as angels or devils
- NHS accountants as bean counters or possessing the judgement of Solomon
- Private sector - the future or the past
- Politicians - corrupt or stupid