

Finance Return

## Glossary

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
AIMS	Agency Information Management System
AHCA	Australian Health Care Agreement
CCU	Critical Care Unit
CEO	Chief Executive Officer
CFO	Chief Finance Officer / Director of Finance
DHS	Department of Human Services
DTF	Department of Treasury and Finance
DVA	Department of Veterans' Affairs
EBA	Enterprise Bargaining Agreement
EFT	Equivalent Full Time
HACC	Home and Community Care
HAS	Health Services Agreement
LSL	Long Service Leave
MHS	Metropolitan Health Service
NHT	Nursing Home Type
SPF	Specific Purpose Fund
TAC	Transport Accident Commission
UIG	Urgent Issues Group
VAED	Victorian Admitted Episode Database
VDP	Voluntary Departure Package
WIES	Weighted Inlier Equivalent Separation

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## Finance Return Form F1

### Reporting Requirements

Form F1 is used to report agency level financial data for all sources of funding. The data is requested in accordance with the Health Services Act 1988. The key feature of the financial statements and ratios on the AIMS Form F1 return is to provide the Department of Human Services with information to determine the performance and viability of each reporting entity.

AIMS Form F1 is divided into six parts:

- Statement of Financial Performance
- Statement of Financial Position
- Indicators
- Statement of Cash Flows
- Supplementary Data on Expenses, and
- Chief Executive Officer's or Chief Finance Officer's Comments.

### Return of Forms

Forms are to be submitted to the department *within 12 calendar days* following the end of the month for all metropolitan health services, Barwon Health, Bendigo Health Care Group and Ballarat Health Services. All other hospitals are to submit the completed F1 within 14 calendar days.

The tick in the Completed field indicates to the department that the form is complete with all validation rules satisfied and appropriate approvals for release obtained.

Print outs of the original signed forms must be retained by the hospital and be available to officers of the department upon request.

### Assistance

If assistance is required with the completion of this return, please contact your regional office (for regional base and rural hospitals) and respective account manager (for metropolitan health services). For technical assistance on AIMS related problems, please contact the AIMS Help Desk on 03 9616 8595.

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## Instructions for Completing Form F1

The instructions for completing the F1 are found in the following pages arranged in the numerical order of the F1 format. These instructions are applicable to the actual as well as the projected position. The instructions should be closely adhered to so that the monthly financial returns of the metropolitan health services (MHS) and hospitals are prepared on a consistent and comparable basis. The disclosure requirements of items 42 to 60 will further enhance the understanding and comparability of the financial result and position of the MHS and hospitals.

The projections required of the financial performance, financial position and cash flow statements are for the whole of the financial year 2003–2004. These projections should be based on the budgets of the MHS and hospitals periodically adjusted for change in assumptions and new developments.

### Accounting and Reporting Issues

The monthly F1 provides information on the financial result and position of MHS and hospitals to the department on an accrual basis. The analysis carried out on this information forms the basis of monitoring the industry by the department and the Minister, which is formalised in the Hospital Performance Reports provided to the Government's Expenditure Review Committee. There have been inconsistencies in the reporting of certain revenue and expenses between MHS and hospitals. The inconsistencies have distorted the comparability of financial results and performance between MHS and hospitals. In particular, the issues relate to the treatment of:

- Non-reciprocal transfers or grants
- The timing of recognising funding revenue for salary increases
- Changes in provision for employee benefits
- Accounting for public holiday expenses
- Industrial disputes or force majeure events

The accounting treatment of non-reciprocal transfers or grants is now formalised in DHS Circular 17/2002 issued on 1 July 2002.

As usual there are differing views within the industry on accounting policies and Boards may have differing opinions on the best way of recording these items. In order to accommodate these diverse opinions and practices, a disclosure box was introduced to allow the department to collect further information relevant to explaining and understanding the financial performance of the MHS and hospitals. *These disclosures are found in items 53 to 60 of the F1.*

In addition to financial information provided through monthly F1, hospitals also provide financial information through Annual Reports, Mid Year Financial Reports and Annual Financial Reports. Inconsistencies in reporting of financial information between these financial returns or reports have been identified in the past. The areas of most significance were inconsistencies in the reporting of:

- agency nursing. Some agencies have rightly reported agency nursing costs as 'Agency Costs' in the monthly F1 but classified the same costs as 'Salaries and Wages' in the Annual Report. For

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the current year F1, agency nursing costs are to be reported in item 2 (Agency Costs – Nursing) of F1 Part 5 costs; and

- recovery of employee related expenses between hospitals. It is common practice among MHS that their medical officers are sent to work in regional / rural hospitals. Some hospitals treated the recovery of costs and expenses relating to these medical officers not as revenue but as a reduction on employee related expenses. All recoveries should be treated as revenue without any offset.

## Major Changes for 2003–2004

### Statement of Financial Performance

A range of changes have been made to the Statement of Financial Performance for 2003-04, as part of a strategy to better align the statutory financial statements with the Annual Return and the F1, and improve overall reporting consistency. The main changes are:

1. Refinement of the definition of the HSA segment. 'Services supported by the health Services Agreement' comprises services substantially funded by DHS through the HSA as well as like services with other funding sources provided in association with HSA services. This means that:
  - Low care aged residential care (aged care hostels) are in the HSA segment
  - Public hospital services provided to compensable and other non-public patients are in the HSA segment. Unless provided directly through separate business units, services to these patients are regarded as a full or partial cost recovery extension of an HSA funded service, with the revenue recorded under 'Patient fees'.
  - Except for research and capital grants, all direct Commonwealth grants (as distinct from Commonwealth grants such as HACC and ACAS that flow through DHS Service Agreements) for the delivery of services closely allied to HSA-funded services are to be recorded as 'Other income' under the relevant program area in the HSA segment. Commonwealth subsidies for aged residential care services should be recorded along with resident fees in the relevant item categories.
2. Creation of a new program category in the HSA segment 'Aged Residential Care', which will encompass all Commonwealth-accredited aged residential care services (both hostels and nursing homes), except psychogeriatric nursing homes and hostels. Expenses and revenues relating to psychogeriatric nursing homes and hostels are to be separately identified with the mental health program.

However, resident accommodation payments, whether as accommodation charges (nursing homes) or as interest and retention amounts on bonds (hostels) are to be reported as capital income (Item 36ii.). The accommodation bond itself will continue to be accounted for as liability of the hospital.

All other former 'Aged and Home Care' services (e.g. HACC) are to be reported under the 'Other Services' category.
3. Redefinition of the 'Other Services' program category in the HSA segment, to encompass all HSA-funded services other than Acute Health (including sub-acute services), Mental Health, and

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Aged Residential Care. The 'Other Services' category therefore includes all non-residential aged care (HACC, ACAS, carers, etc), community health, dental health, disability, public health, drug treatment, problem gambling, mother and babies and other HSA-funded services. Sub-acute services, including palliative care, are no longer funded through the Aged & Home Care output group and should be reported under Acute Health.

4. Re-naming of the 'Government revenue' item in each of the four program categories in the HSA segment as 'DHS HSA revenue', so that this line records DHS HSA revenue only. A separate category has also been established in the 'Other Services' program to record revenues from Dental Health Services Victoria.
5. Although not a change, it is important to note that the practice of recording untied donations (except capital donations) received through general appeals (for example, Good Friday Appeal) in the non-HSA segment will continue in 2003-04. This is in contrast to the 2002-03 Annual Return and the 2002-03 statutory financial statements where this income should continue to be recorded in the HSA segment.
6. Supplementary Data on Expenses have been expanded to include additional line items on expenses.

### Performance Indicators

This section is streamlined with fewer indicators.

### Fund Accounting

The Finance and Accounting Manual for Public Hospitals describes 'Fund Accounting' as separate accounting for cash inflows according to their source and a matching of expenditure according to the source of funds used in expenditure transactions.

Three funds namely the Operating Fund, Capital Fund and Specific Purpose Funds are used to enable a distinction to be drawn in relation to both stocks and flows of funds between those relating to activities undertaken at the behest of government and those undertaken as a result of local community initiatives.

For the purpose of monitoring the financial performance of MHSs/public hospitals, the reporting of operating revenue and expenses in the F1 are grouped into 'Services supported by Health Service Agreement' which represents the Operating Fund and 'Non-HSA initiatives' which combines the Specific Purpose and Capital Funds. As the non-HSA initiatives play an important part in the financial management of the MHSs/hospitals, the format makes a clear demarcation between controllable non-HSA activities and restricted specific purpose funds which are deemed not under the control of the Boards.

### Consolidation and Elimination Column

The F1 requires the reporting of consolidated figures. However it does not provide an elimination column, as the details of elimination are not required. As such all elimination of inter funds transactions should be done outside the F1 in your consolidation worksheet. The 'consolidated' column in AIMS F1 reports only transactions between the entity and third parties.

## Part 1A: Revenue

### Government Operating Fund

#### Acute Health

Includes sub-acute (rehabilitation, GEM, palliative care, interim care) as well as acute patient services.

#### Acute Health Revenue—HSA revenue (Item 1(i))

Variable payment rates for 2003–2004 in respect of Casemix revenue are:

#### Inpatients

Payment	All Hospitals	Major Providers	Rural Group B >13000 WIES	Rural Group B 7500-13000 WIES	Rural Group B 5000-7500 WIES	Rural Group B <5000W IES	Rural Group C	Rural Group D & E
Inpatients:								
Public WIES11		\$2669	\$2788	\$2870	\$2941	\$2958	\$2783	\$2710
Private WIES11		\$2182	\$2281	\$2350	\$2407	\$2420	\$2285	\$2230
Rural/Isolate Hospital Payment per WIES11	\$17/44							
Nursing Home Type patient per day	\$161							
DVA per WIES 11		\$2766	\$2885	\$2967			\$2967	\$2967
Sub-acute:								
CRAFT (episode)	\$10,711							
Rehabilitation level 1	\$493							
Rehabilitation level 2	\$409							
Geriatric Evaluation and Management	\$409							
Interim Care Beds	\$256							

(A full listing of the unit rates and conditions of payments for all WIES11 are found in Section A Chapter 5 Summary of 2003–2004 Public Hospital Payment Rate of the Policy and Funding Guidelines 2003–2004).

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***Non-Admitted Patients (Group A Hospitals, Ballarat and Bendigo)***

VACS Variable Grant is \$133 per weighted encounter for throughput up to target. Allied Health per occasion of service is \$47 for throughput up to target.

Note that these rates are subject to variation during the year.

All casemix revenue received or accrued for the year-to-date should be recorded in this cell.

Where actual WIES11 for the period is not available, hospitals would need to multiply the actual separations by the most recent estimate of the average conversion factor to derive the estimated WIES11.

The actual/estimated public and private WIES11 and VACS variable grant relating to non-admitted patients weighted encounters should be multiplied by the relevant rates disclosed above to determine the government accrued revenue.

In addition to the above payments, non-reciprocal transfers of an operating nature made to the hospital by the Government should be reported in this cell. Non-reciprocal transfer means a transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer. With the introduction of Statement of Accounting Concept 4 and more importantly the adoption by the Government of Australian Accounting Standards and Accounting and Financial Reporting Bulletin Issue 39 issued by the Department of Treasury and Finance, non-reciprocal transfers or contributions in the form of grants, donations and gifts must be recognised as revenues. An example of these grants is block grants provided by the department to all MHSs and public hospitals for general equipment and infrastructure maintenance purposes. As these grants are provided for general maintenance of infrastructure and equipment that are mostly located in acute health, it should be reported in this cell. Similarly targeted equipment grants, being specifically dedicated to equipment purchases, are to be reported as capital purposes revenue in item 39(i). Donations and gifts of an operating nature should be reported under item 1(iii) Other Income.

For 2003–2004 same day medical targets are standardised at 6.5% of total funded throughput across Victoria. Some hospitals are excluded from same day medical targets and will not contribute to MHS targets. The exclusions to the caps introduced in 1999–2000 will continue to apply in 2003–04. Same day medical throughput in excess of targets will not be funded except where negotiated under the department’s Hospital Demand Management Strategy.

NHT days are paid for patients in an acute facility or geriatric facility where the length of stay has exceeded 35 days, except where an acute care certificate or equivalent has been signed.

*Where actual/estimated WIES11 throughput for the reporting period is greater than target, revenue should be accrued to target. Where actual/estimated WIES11 throughput for the reporting period is lower than target, revenue should be accrued to actual.* Section A Chapter 5 and Section B part 4 of the Public Hospitals Policy and Funding Guidelines (<http://www.health.vic.gov.au/pfg2003/>) provide further details that have a bearing on recognition of revenue.

Insurance payments made on behalf of the hospital by the Department of Human Services are contra entries and should be accrued and apportioned between programs based on their proportional amount of expenditure. Such indirect payments should be recorded under ‘HSA Revenue’.

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**Acute Revenue—Inpatient Accommodation Fees (Item 1(ii))**

All accrued private patient fees, including for compensable patients, armed forces, and ineligible overseas visitors, (with the exception of accrual for the inpatient revenue shortfall, if any, should be taken up in item (i)) must be recorded in this item. Further details on private patient revenue are also found in Section B part 4 of the Public Hospitals Policy and Funding Guidelines.

Bad debts recovered should be offset against doubtful debt provision incurred by this program in item 17.

**Acute Revenue—Other Income (Item 1(iii))**

This cell includes all accrued outpatient fees, pharmaceutical charges, PBS reimbursements from the Health Insurance Commission, recoveries for services supplied to other health services or external agencies (unless conducted through business units) as well as interest income. Income from Operating Fund’s bank accounts and other investments should be allocated to their output group. If this data is unavailable, interest income should be apportioned on the basis of the output group’s percentage share of total revenue.

Facilities fees recovered on revenue from Medicare funded MRI services is to be reported here. Corresponding MRI operating expenses are to be reported in item 17(ii) Acute Non-Admitted Services.

Hospitals that receive ‘cash’ donations or donations and gifts of an operating nature should record these amounts as revenue in the Operating Fund or Specific Purpose Fund depending upon whether or not the donor specifies obligations/conditions with respect to disbursement and according to the program that raises the cash. For example, general donations collected from ‘Accident and Emergency’ area should be recorded in the Operating Fund as revenue against Acute Health.

**Mental Health**

Mental Health includes public psychiatric specialist units, mainstreamed psychiatric acute care units, psycho-geriatric services, crisis assessment teams, mobile support and treatment, home based outreach program, community residential rehabilitation care, psychosocial rehabilitation day program and related support services.

**HSA revenue (Item 2(i))**

The amount reported here should be accrued by dividing the annual grant as stated in the Health Service Agreement by the number of days in the year and then multiply that amount by the number of days in the month.

**Psychogeriatric resident Fees and Commonwealth payments (Item 2(ii))**

Revenue from residents of psychogeriatric residential aged services (excluding accommodation payments) and Commonwealth subsidies for psychogeriatric residential aged services should be recorded under this item. Accommodation payments, including accommodation charges and interest and retention amounts on accommodation bonds, are to be recorded under item 36ii.

**Patient/client fees (Item 2(iii))**

All other revenue from mental health patients, including revenue from residents of community care units, should be recorded here.

**Other Income (Item 2(iv))**

Includes investment income, recoveries, direct Commonwealth grants (e.g. PGU program grants) and other contributions readily identifiable with mental health services. For more information, please refer to Item 1(iii).

**Aged Residential Care, excluding psychogeriatric**

Aged residential care includes all residential care services, accredited by the Commonwealth and subsidised by the Commonwealth under the Aged Care Act (Cwlth) 1997, excluding psychogeriatric services which continue to be recorded under Mental Health. Note that sub-acute inpatient and outpatient services fall under Acute Health while any non-subsidised aged residential care services that a hospital may operate, such as a supported accommodation service, fall in the non-HSA segment, item 6.

**HSA revenue (Item 3(i))**

Only revenue received from DHS under the HSA should be reported here.

**Aged Residential Care—Nursing home (high care services) resident fees and Cwlth payments (Item 3(ii))**

Revenue received from nursing home residents, other than resident accommodation charges, and Commonwealth subsidies for nursing homes and nursing home residents. Resident accommodation charges should be recorded as a capital income under item 36ii.

**Aged Residential Care—Hostel (low care services) resident fees and Commonwealth payments (Item 3(iii))**

Revenue received from hostel residents and Commonwealth subsidies for nursing homes and nursing home residents. Interest and retention amounts on resident accommodation bonds should be recorded as a capital income under item 36ii.

**Other income (Item 3(iv))**

Includes donations (except capital donations) tied to residential care service provision and recoveries.

**Other Services**

This includes all non-residential aged care (HACC, ACAS, carers, etc), community health, dental health, disability, public health, drug treatment, problem gambling, and other HSA-funded services. Note that aged sub-acute services, including palliative care, should be reported under Acute Health.

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### **HSA Revenue (Item 4(i))**

The above explanatory notes are also applicable to the appropriate sub headings. Non-admitted patient fees are fees derived from outpatients.

### **DHSV revenue—community dental program (Item 4(ii))**

Revenue received from Dental Health Services Victoria for dental services under the community dental program.

### **Other income (Item 4(iii))**

Includes patient/client fees, investment income, recoveries, direct Commonwealth grants (e.g. Regional health services program grants, Community Aged Care Packages, Extended Aged Care in the Home) and other contributions identifiable with HSA services other than acute health, mental health and aged residential care.

### **Total HSA Revenue (Item 5)**

The total for this item is computed by the system automatically and is the sum of items 1 to 4 in the services supported by Health Services Agreement column.

## **Non-HSA Initiatives**

Non-HSA initiatives generally refer to activities, which *are not supported by, or allied with, services funded by DHS' through the HSA*. A clear demarcation is established under these initiatives between activities that the Boards have control and those that they do not have. Business unit, controlled entity, hostel and property investment activities established and controlled by the Board are categorised as controllable non-HSA activities. All restricted specific purpose funds are considered as not within the control of the Boards.

### **Business Units (Item 6)**

A business unit is a part of the MHS or hospital and is usually not a separate legal entity. The general characteristics of 'business units' include but are not limited to:

- the sale of goods and services of a retail and commercial or medical nature to external parties;
- the separate accountability such as cost or profit centres for revenue and expenditure; and
- does not receive any income or support from the Department of Human Services on services or goods provided to external party.

Examples of business units include: cafeterias, food catering, car park, linen services, cleaning services and privatised clinical services.

### **Property Income (Item 7)**

This refers to gross rental income earned on property leases. These properties are generally held for commercial/investment purposes.

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### **Interest and Dividend (Item 8)**

This refers to interest and dividend earned on bank accounts and investments attributable to the business unit operations and the management of donations and specific purposes grants. Interest earned on capital funds should be reported in item 36iii as 'Other Capital Purpose Income'.

### **Controlled Entity (Item 9(i))**

Controlled entity is a separately incorporated body that includes subsidiaries such as private hospitals. However, the decision making capacity is dominated directly or indirectly by the reporting MHS/hospital in relation to the financial and operating policies of the entity so as to enable the entity to operate under those policies in pursuing the objectives of the reporting hospital. A common form of control within the public hospital industry is the capacity of the reporting hospital to dominate the composition of the board of directors or governing board of another entity.

### **Controlled Entity—Fund Raising Activities (Item 9(ii))**

This refers to controlled entity primarily engages in fund raising activities for the benefit of the MHS/hospital.

### **General Donations (Item 10)**

All untied donations, except those raised for a particular ward or program area, other than tied donations and capital donations are to be reported in this cell. These donations are generally provided without any form of restriction and/or condition.

### **Other Revenue (Item 11)**

This includes all sundry income not reported under items 6 to 10.

### **Total Controllable Non-HSA Revenue (Item 12)**

The total for this item is computed by the system automatically and is the sum of items 7 to 13 in the Non Health Services Agreement Initiatives column.

### **Total HSA and Controllable Non-HSA Revenue (Item 13)**

The total for this item is computed by the system automatically and is the sum of item 6 and item 14 from the respective Health Services Agreement and Non Health Services Agreement Initiatives column.

### **Restricted Specific Purposes Revenue (Item 14)**

This is introduced as a result of the review by an external consultant of the SP Funds. The Consultancy Report indicated three categories of SPF namely certain business units (item 6), internally managed SPF (item 11) and restricted purpose SPF. The department has also issued Guidelines for the Identification and Establishment of SPFs. The Guidelines can be accessed via the department's website at:

[http://www.health.vic.gov.au/public\\_hospitals/spfund/spfund.pdf](http://www.health.vic.gov.au/public_hospitals/spfund/spfund.pdf).

The characteristics of a restricted purpose SPF include the following features:

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- The fund is established for a *particular or specific purpose (that is, a restriction or condition)* through some forms of legal instrument such as a trust or legal undertaking to comply with the condition or purpose for which the fund is established. The common types would be donation provided to purchase a specified equipment and research grant provided for particular field of interest (items 14i and 14ii).
- A separate board or a separate committee normally manages the fund such as a foundation managed by a separate board. Alternatively, this could be managed by a management auxiliary to the hospital's Board (item 14iii).

The hospital's Board has no effective control on the restricted purpose SPF other than to comply with or to implement the purpose for which the fund is set up. All funding and donations specifically provided for *capital works* are to be reported as such in item 35 or item 36.

#### **Total Restricted Specific Purpose Revenue (Item 15)**

The total is computed automatically by the system and is the sum of Items 16(i) to 16(iv) in the Non-HSA Initiatives column.

#### **Total Entity Operating Revenue (Item 16)**

The amount in 'Total HSA Revenue' (item 5) will be transferred to 'Total Entity Operating Revenue' (item 16) in the Services Supported by Health Service Agreement column.

The sum of 'Total Controllable Non-HSA Initiatives Revenue' (item 12) and 'Total Restricted Specific Purpose Revenue' (item 15) will be transferred to 'Total Entity Operating Revenue' (item 16) in the Non-HSA Initiatives column.

The System will require the user to key in the Total Entity Operating Revenue in the All Activities Consolidated column. The amount keyed in must equal to the sum of 'Total Entity Operating Revenue' in the Services Supported by Health Service Agreement column and Non-HSA Initiatives column, otherwise the system will display an error message upon completion of data entry and not allow the user to proceed with authorisation until the error is corrected.

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## Part 1B: Expenses

Items 17 to 20 refer to recurrent expenses accrued on services supported by Health Service Agreement or any other supplementary agreement made with the Department of Human Services.

### Acute Health (Item 17)

The expenses include cost of direct patient care for patients admitted to designated acute care beds in public hospitals including the cost of direct patient care for palliative care and sub-acute programs. In 2003–04 these services include sub-acute services such as rehabilitation level 1 and 2, geriatric evaluation and management, nursing home type days and respite. The expenses are to be reported under the classification of Admitted Patients and Non-admitted Patients Services.

Admitted patient is a patient who undergoes a hospital's formal admission process and is admitted as a same-day patient or overnight stay patient. Non-admitted patient is a patient who does not undergo a hospital's formal admission process. There are three categories of non-admitted patient:

- emergency department patient
- outpatient
- other non-admitted patient.

### Mental Health—Admitted Patients (Item 18(i))

This item refers to expenditure on admitted patients services including: acute services, and non-acute services, comprising rehabilitation and inpatient extended care.

### Mental Health—Psychogeriatric residential care services (Item 18(ii))

Expenditure on psycho-geriatric residential aged care services, including psychogeriatric nursing homes and hostels should be reported here.

### Mental Health—Community and other Non-Admitted Services (Item 18(iii))

Expenditure on community based mental health services including CCUs, CATT, MST services. Expenditure under the primary mental health initiative should also be recorded under this item.

### Aged Residential Care, excluding psychogeriatric—High care services (Nursing Homes) (Item 19(i))

This item refers to expenditure on high care residential aged care services (nursing homes). Agencies should ensure that cost attributions of corporate overheads and staff who work part-time in services funded by other output groups (for example, nurses who work across residential aged care and acute or sub-acute services) are accurate and reviewed regularly.

### Aged Residential Care, excluding psychogeriatric—Low care services (Hostels) (Item 19(ii))

This item refers to expenditure on low care residential aged care services (hostels). Agencies should ensure that cost attributions of corporate overheads and staff who work part-time in

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services funded by other output groups (for example, nurses who work across residential aged care and acute or sub-acute services) are accurate and reviewed regularly.

### **Other Services (Item 20)**

This refers to expenditure not reported in program areas above in items 17 to 19.

### **Total HSA Supported Services Expenses (Item 21)**

The total shown here is automatically calculated by the system and equals to the sum of items 17 to 20 in the Services Supported by Health Services Agreement column.

## **Non-HSA Initiatives**

### **Business Units (Item 22)**

This relates to all expenses incurred on an accrual basis in generating the revenue of business units as described in item 6.

### **Property Expenses (Item 23)**

This relates to all expenses incurred in generating the property income as described in item 7.

### **Controlled Entities (Item 24(i))**

This refers to all expenses incurred on an accrual basis in generating the revenue of controlled entities as described in item 9(i).

### **Controlled Entities—Fund Raising Activities (Item 24(ii))**

This refers to all expenses incurred on an accrual basis in generating the revenue of controlled entities engaged in fund raising activities as described in item 9(ii).

### **Other Expenses (Item 25)**

This refers to all expenses accruing on the Non-HSA initiatives but not included under items 22 to 24 and item 28.

### **Total Controllable Non-HSA Expenses (Item 26)**

The total shown here is automatically calculated by the system and is the sum of items 22 to 25.

### **Total HSA and Controllable Non-HSA Expenses (Item 27)**

The total shown here is automatically calculated by the system and is the sum of items 21 and 26.

### **Restricted Specific Purposes Expenses (Item 28)**

This refers to all expenses accruing on the delivery of services funded under item 15.

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### Total Entity Operating Expenses (Item 29)

'Total HSA Supported Services Expenses' (item 21) and the sum of 'Total Controllable Non-HSA Initiatives Expenses' (item 26) and 'Restricted Specific Purposes Expenses' (item 28) will be automatically transferred to this item under the respective activity columns. The system allows users to key in the total in the All Activities Consolidated column and compare with the total calculated automatically. The total entered here is the sum of items 21, 26 and 28. If the total does not add up, the system will display an error message upon completion of data entry and not allow the user to proceed with authorisation until the error is corrected.

### Surplus (Deficit)—HSA and Controllable Non-HSA Initiatives (Item 30)

The system will generate a total in the respective HSA and Non-HSA activity columns. The system requires a total (=items 5+12-21-26) to be entered into the All Activities Consolidated column and is compared with the total which is calculated automatically. If the total does not match with the automated total, the system will display an error message upon completion of data entry and will not allow the user to proceed with authorisation until the error is corrected.

### Entity Operating Surplus/(Deficit) (Item 31)

The system requires totals to be entered into the respective column and is compared with the total which is calculated automatically. The system will also automatically deduct totals in item 29 from those in item 16 to determine the surplus or deficit for the respective activities. If the total does not match, the system will display an error message upon completion of data entry and will not allow user to proceed with authorisation until the error is corrected.

### Depreciation (Item 32)

Non-HSA Initiatives activities include those of the Capital Fund that is deemed to hold all the hospital's fixed assets. As such, depreciation on these assets should be treated as an expense of the Non-HSA Initiatives activities. The three common depreciation methods are spelt out in page 51 of the Department of Human Services' Finance and Accounting Manual. The Victorian Healthcare Association has issued a list of depreciation rates that are suitable for use by public hospitals, subject only to unusual conditions prevailing with respect to particular assets. This list appears in the Appendices (page 114) of the Department of Human Services' Finance and Accounting Manual for Public Hospitals.

Depreciation in the first year of acquisition must be computed according to the time the asset was used during the year. Fractions of a month are to be disregarded.

### Specific (Abnormal) Items (Item 33)

In 2000–2001, the reference to abnormal items disappears from the accounting standards. Notwithstanding this, the department intends to continue following the existing presentation in the financial statements where depreciation, capital purpose income and abnormal items are shown separately below the 'entity operating surplus/deficit' line. However, abnormal items for this year will be described as 'specific items'. The existing presentation is retained so that results are comparable and consistent with previous years. As the F1 serves the specific monitoring purpose of the department, the specific revenue or an expense is of such a *size, nature or incidence* that its disclosure is relevant in explaining and understanding the financial performance of the MHSs and hospitals. The requirement is in compliance with section 5.4 of AAS1 (AASB 1018) on 'Disclosure of

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Specific Revenue and Expenses', which became operative from 30 June 2002. Some of the circumstances that may give rise to the separate disclosure of these specific revenues and expenses include:

- the write-down of inventories or non-current assets and, where applicable, the reversal of such write-downs
- litigation settlements
- reversals of provisions
- restructuring of operations
- changes in accounting policies, other than those changes made to comply with a Standard or an Urgent Issues Group Consensus View that requires initial adjustments to be recognised as a direct credit to equity or a direct debit to equity.

A new note is included in the F1 to facilitate the reporting of these specific revenue and expenses (items 38 to 47).

### **Extraordinary Items (Item 34)**

Extraordinary items are to be reported in this cell. Extraordinary items are items of revenue and expense that are attributable to transactions or other events of type that are outside the ordinary operations of the entity and are not of a recurring nature. For example, the sale of a significant operation or all the assets associated with such an operation or the unintended destruction of a property.

Reporting entity is encouraged to provide additional information of these items in Part 6 'CEO's or CFO's Comments on Performance' section of the F1 for better understanding of the operating result.

### **Capital Purposes Grants (Item 35)**

This relates to all tied grants received *for the purpose of acquiring non-current assets such as capital works, plant and equipment* and should be reported as revenue in the Non-HSA Initiatives column.

In 2003–2004 the department will continue with the capital equipment funding process comprising of two major annual funding pools briefly described as follows:

*General Equipment and Infrastructure Maintenance Grants:* The annual infrastructure and maintenance grant is provided to hospitals and health services for general equipment and infrastructure maintenance purposes. The grant is provided as a contribution towards maintenance costs of the agencies. Separate funding is provided by the department to agencies for the replacement of equipment (See *Targeted Equipment Grants*). The allocation of the infrastructure and maintenance grant is based on:

- the size and relative age of equipment of each hospital/health service;
- the inpatient and non admitted patient outputs; and
- the relative financial capacity and resources of the hospital/health service.

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The funding source for this grant is the Department of Treasury and Finance's (DTF) appropriation to the department for the funding of hospital/health service outputs. DTF Bulletin 39 requires that all appropriations for the provision of outputs must be recognised as revenue. The introduction of whole of government reporting for the State of Victoria also requires the consistent treatment of assets, liabilities, revenues and expenses between the Government, Departments and wholly owned public entities. This facilitates the process of uniform reporting and proper consolidation of all the entities involved.

Given the above background and the existing practice of recognising maintenance costs as operating expenses, the department requires all public hospitals/health services to treat the infrastructure and maintenance grants as an item of recurrent operating revenue in the HSA section of the F1. The department has issued Circulars 17/2002 and 7/2003 advising hospitals of this treatment.

*Targeted Equipment Grants:* From this funding pool MHS/hospitals bid for grants towards higher cost replacement or new items of equipment not funded under other special purpose capital funding programs. The allocation of these grants is submission based and for the purchase of equipment only. As such funding received under this program has to be reported as capital purpose income.

Hospitals should note the introduction of Accounting and Financial Reporting Bulletin 39 entitled 'Accounting for Contributed Capital' in April 2002. The Bulletin prescribes:

- The public sector entities that can apply Abstract 38 (paragraph 7(c))
- The nature of transfer that is permissible for classification and recognition as contributed capital.

Unless otherwise designated, capital grants made by the department are to be reported under the 'DHS' sub heading while those made by the community and the Commonwealth are reported under the 'Others' sub-heading.

### **Other Capital Purpose Income (Item 36)**

All income (other than those reported in item 35) received for the specific purpose of acquiring non-current assets such as capital works, plant and equipment should be reported as revenue in the Non-HSA Initiatives column. The common items to be included here are:

- Donations and bequests specified for the purchase of fixed assets (item 36i).
- The cost of equipment donated by medical practitioners (item 36i).
- Interest earned on accommodation bonds from residents (item 36ii).
- The retention amount that may be deducted from accommodation bonds (item 36ii).
- accommodation charges paid by nursing home residents (item 36ii).
- Capital interest (item 36iii).
- Profit or loss on sale of fixed assets (item 36iii).

The receipt or refund of the principal of accommodation bonds *should not* be recorded under this item.

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### Entity Surplus/(Deficit) (Item 37)

The system requires totals to be entered into the respective column and is compared with the total of items 31, 32, 33, 34, 35 and 36 which is calculated automatically. If the total does not match, the system will display an error message upon completion of data entry and will not allow the user to proceed with authorisation until the error is corrected.

### Specific Items (Items 38 to 47)

Australian Accounting Standard No.1 no longer makes any reference to abnormal items. Notwithstanding this, the department intends to continue following the existing presentation in the monthly financial return where depreciation, capital purpose income and abnormal items are shown separately below the line, however abnormal items for this year will be described as 'specific items'. The department is maintaining the present format for consistency with previous years and to enable readers to focus on the result without the capital items and 'abnormal'. These disclosures refer to those specific revenues and expenses when '... revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of the entity for the reporting period'. For this reason the F1 has provided a predetermined list of specific revenue and expenses by way of disclosure note for consistent reporting among MHSs and hospitals.

## Supplementary Information on Statement of Financial Performance

### Supplementary Information on Statement of Financial Performance (Item 49)

This refers to disclosure of operating expenses incurred in the current financial year in relation to revenue recognised in the last financial year. This situation is a consequence of recognising non-reciprocal transfer as revenue in previous year with corresponding operating expenses accounted for in the current year.

### Supplementary Information on Statement of Financial Performance (Item 50)

This refers to disclosure of revenue recognised in the current financial year without accruing the corresponding operating expenses or having operating expenses recognised only in the following financial year. This situation is a consequence of recognising non-reciprocal transfer as revenue in the current year with corresponding operating expenses accounted for in the following year.

### Supplementary Information on Statement of Financial Performance (Item 51)

This refers to disclosure of loss of throughput due to industrial dispute/force majeure and *accrued as revenue*. The WIES lost should not be recognised as revenue until the department agrees to compensate for the loss. The number of WIES lost is to be disclosed in the 'Allocation' column and the revenue amount accrued is to be reported in the 'Year to Date' column.

### Supplementary Information on Statement of Financial Performance (Item 52)

This refers to disclosure of loss of throughput due to industrial dispute/force majeure and *not accrued as revenue*. It is prudent not to recognise the WIES lost as revenue until the department

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agrees to compensate for the loss. The number of WIES lost is to be disclosed in the 'Allocation' column and the revenue amount lost is to be reported in the 'Year to Date' column.

**Supplementary Information on Statement of Financial Performance (Item 53)**

This refers to disclosure of salary increases charged to profit and loss without a similar accrual of the department's funding. This is a common issue noted on inconsistent recognition of salary expenses and revenue arising from award increases funded by the department. The problem occurs in the year of renegotiating the awards where the percentage adjustment to salary remains unknown for a few months until final agreement is reached. It follows that funding from the department through the revised WIES rate is paid in arrears. It often happens that the increased salary costs are accrued without a similar accrual of funding to be received from the department.

**Supplementary Information on Statement of Financial Performance (Item 54)**

This refers to change in provision for employee entitlements due to renegotiation of awards. The change in the provision creates a corresponding increase in employee entitlements expense. Currently there is a lack of uniformity in the recognition of this increase in the profit and loss statement among MHS's and hospitals. Some MHS's recognise the increase fully as it happens while others account for the increase pro-rated over the months in the financial year. This information allows the department to assess the impact of MHS's accounting policy on their respective operating result. The percentage and amount of increase charged to profit and loss are to be disclosed respectively in the 'Allocation' and 'Year to Date' column.

**Supplementary Information on Statement of Financial Performance (Item 55)**

This refers to the treatment of public holiday costs. Various methods are in use by MHS's and hospitals to account for public holiday costs in the profit and loss statement. This disclosure item requires the reporting of the number and costs of public holidays charged to profit and loss respectively in the 'Allocation' and 'Year to Date' column.

**Supplementary Information on Statement of Financial Performance (Item 56)**

This refers to Infrastructure and Maintenance grants that are provided by the department to the MHSs and hospitals for capital purchases as well as for the provision of services. As mentioned in item 39 infrastructure maintenance grants are provided for maintenance purposes and are to be reported as operating revenue in the HSA section. Disclosure made here assists the department in identifying the respective amount of infrastructure and maintenance grants reported as operating and capital purpose income.

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## Part 2A: Statement of Financial Position—Equity and Liabilities

### Equity

#### Retained Earnings (Item 57)

This refers to the closing balance on the retained earnings/(accumulated deficit) as at the reporting date.

#### Contributed Capital (Item 58)

This refers to appropriations or contributions that satisfy the requirements of AAS29 and UIG Abstract 38 on reporting these transfers as contributions by owners. DTF in April 2002 issued an Accounting and Financial Reporting Bulletin 39 that prescribes certain requirements with respect to the application of paragraph 7 (c) of Abstract 38 by wholly – owned public sector entities. The Bulletin prescribes:

- The public sector entities that can apply Abstract 38 (*Appendix D of the Bulletin listed all public hospitals as wholly owned public sector entities*),
- The nature of transfers that are permissible for classification and recognition as contributed capital,
- The mode and timing of a formal designation that is required for the transfers to be classified and recognised as contributed capital, and
- The measurement basis for the recognition of the transfers as contributed capital.

The department has also issued Circulars (18/2002 and 19/2002) to provide guidance to hospitals on the working of Bulletin 39. A significant point to note is that no capital grant revenues should be recorded as contributed capital unless notified in writing by the department.

#### Contributed Capital—Major Redevelopment Equity (Item 59)

This forms part of the contributed capital. This line is for reporting of capital grants received for major works such as redevelopment of hospitals. For the allowable transactions (such as appropriation or major works) to be classified as contributed capital they need to be formally designated on or before the time of the transaction. Due to the complexity of the appropriation of funding from DTF to the department and its on passing to the agencies, no hospital should treat capital grants for major works as contributed capital (major redevelopment equity) unless notified in writing by the department.

#### Restricted Specific Purpose Reserves (Item 60)

This refers to funds held for restricted purposes and funds held in perpetuity. Funds held for restricted purposes refer to funds that because of the terms on which they are given or because of a decision of the Board of Management are not available to be used for general activities of the hospital. Examples of these funds are Research Funds, Education Funds, Prize Funds, Charitable Trusts and Private Practice Funds. Funds held in perpetuity refer to endowments from donors where the amount and duration of the gifts continue for an infinite period. Interest earned from these funds is added to the original sum to maintain its value. Funds held for restricted purposes

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and for perpetuity must be classified under Specific Purpose Fund. (Please also refer to item 14 on the reporting of restricted purpose revenue.)

### **All Other Equity/Reserves (Item 61)**

'Other Equity' includes asset revaluation reserve and other reserves not included in items 62, 63 and 64. Asset Revaluation Reserve is an equity account that contains the movements in asset values and any upward or downward movement in asset values is recorded against this reserve account.

### **Total Equity and Reserves (Item 62)**

The total keyed into the Consolidated column is the sum of items 57, 58, 59, 60 and 61. If the total does not add up, the system will display an error message upon completion of data entry and not allow the user to proceed with authorisation until the error is corrected.

## **Current Liabilities**

### **Bank Overdraft (Item 63)**

Bank overdraft utilised within the approved limit is not a quick liability although it remains a current liability being payable at call. The credit balance of a bank overdraft drawn within limit should only be reported in item 63(i). Bank overdraft must not be set-off against the debit balance in another bank account.

Where an overdraft has exceeded its approved overdraft limit the overdrawn amount should be reported in item 63(ii) and it is treated as a quick liability. For example, if a hospital has an overdraft limit of \$100,000 and this is exceeded by \$20,000 (that is, the account has a credit balance of \$120,000) then \$20,000 should be reported in item 63(ii) and \$100,000 should be reported in item 63(i).

### **Creditors Payable (Item 64)**

The reported balance here should be supported by a listing of outstanding suppliers' accounts that agrees with, or is reconciled to, the relevant general ledger balances. Accounts payable are all amounts that are owing and unpaid for goods delivered and services rendered at a point in time.

#### ***Item 64(i)***

Refers to all accounts due for immediate payment as well as those due within 45 days.

#### ***Item 64(ii)***

Refers to all accounts due for payment after 45 days.

### **Accrued Expenses (Item 65)**

Accrued expenses arise when the expense incurred for the period is not paid for in the same period. As long as payment for expenses and incurrence of the expenses do not take place in the same accounting period, accrual of expenses become necessary for the purpose of matching revenue with expenses. Amounts commonly included in this item are utility charges.

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### Accrued Salaries and Wages (Item 66)

The component of salaries and wages (including fringe benefits and non-monetary benefits) arising from services rendered by employees during the reporting period that is not paid as at the reporting date (that is, month end or year end).

### Provision for Employee Benefits (Item 67)

Employee benefits means benefit entitlements which employees accumulate as a result of the rendering of their services to the hospital up to the reporting date, and include, but are not limited to, annual leave, long service leave, superannuation and other post-employment benefits. Accounting for employee benefits should comply with the provisions of the revised AASB 28. Provision is made in the accounts for obligations in respect long service leave and annual leave entitlements not taken at balance date. The amounts are to be accrued at remuneration rates expected to apply when the obligation is settled, that is the expected future increase in remuneration rate. DTF AFR Bulletin No. 21 LSL Entitlements (revised) permits agencies to use other wage inflation rates in the calculation of LSL where agencies can clearly demonstrate that for industry specific reasons, the use of the alternative rates will result in more relevant and reliable LSL calculations.

The proportion of employee benefits estimated to be payable within the next 12 months is to be included under this item. The portion not due for settlement within the next 12 months is to be classified as non-current in item 74. If total provision is say \$1,000,000 and \$150,000 is required to be settled in the next 12 months, \$150,000 is shown as current liabilities while \$850,000 is shown as non-current liabilities.

### Income in Advance (Item 68)

AAS 15 draws a distinction between reciprocal and non-reciprocal transfer of assets in the recognition of revenue. Non-reciprocal transfer generally means a transfer in which the entity receives assets without directly giving approximately equal value in exchange to the other party. Subject to certain conditions (AAS15 para 9.1), all non-reciprocal transfers must be recognised as revenue. A common example is donated asset, donation in genera and non-reciprocal transfers with stipulations. Income in Advance arises from the non-completion or partial completion of services established under the reciprocal transfers. Failure in providing the goods and/or services may render the assets transferred repayable.

In March 2002, the department sought written clarification from the Victorian Auditor General's Office (VAGO) in regard to the appropriate treatment of Income Received in Advance. The advice received unequivocally states that income received in advance should be recognised as a liability only when it meets the recognition criteria for a liability. VAGO accepts that funding to be returned under the WIES arrangements can be reported as a liability at balance date. It is accepted because the funding to be returned meets the recognition criteria for a liability at balance date given that the present obligation and amount to be repaid has been determined at that point. VAGO further advised that in their view WIES and other grants, even if output measures are attached, are non-reciprocal at the time of receipt by a hospital. The opinion of VAGO is based on the definitions of non-reciprocal and reciprocal contained in AAS15 'Revenue' and Statement of Accounting Concept 4. Paragraph 102 of SAC states that '...for a transfer to be reciprocal, it is not sufficient that the transfer receives benefit *indirectly* as a result of the transfer'. VAGO explained that while hospitals receive an asset (in the form of WIES funding and grant moneys), they are not required to give approximately equal value in exchange to the other party (DHS/Government) involved in the

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transfer as the recipients of the benefit are essentially the individuals receiving the health service. As such WIES and other grants are non-reciprocal and should be recognised as revenue when received.

The department issued a Circular (17/2002) to give effect to VAGO's view on Income in Advance.

### **Monies held in Trust (Item 69)**

Refers to funds held on behalf of patients during their stay in hospital. Upon discharge, the funds are remitted to the patient. The liability must be matched by an asset (usually a bank account) held in trust in the statement of financial position.

Restricted Specific Purpose Funds are characterised by either or both of a condition and restriction over the way the assets may be dealt with. A condition or restriction may fail due to non-compliance, thus creating a legal obligation to repay the funds received. The liability arising from of this situation should be reported here.

Note 2 on Item 69 and 77 requires details to be provided on Money Held in Trust namely Patient Monies Held in Trust, Refundable Accommodation Bonds and Other Monies Held in Trust. These categories are defined as follows:

*Patient Monies Held in Trust:* refer to funds held on behalf of patients or residents during their stay in hospital or an aged care home. They may cover the general daily living activities of the patient or resident and their daily care fees.

*Refundable Accommodation Bonds:* refer to the funds (lump sum, periodic payment or a combination of both) payable for entry to an aged care home by residents who meet the specific criteria under the *Commonwealth Aged Care Act 1997*. It is in addition to the basic daily care fee and any income tested fee that may apply for that resident. The service provider can keep a retention amount out of the accommodation bond, with the balance of the bond to be refunded to the resident, or their estate, on departure. The bonds are subject to prudential arrangements (*Commonwealth Aged Care Act 1997, subdivision 57B* and the *User Rights Principles 1997, Part 4 division 3A*). The prudential arrangements have been designed so that residents can be certain that any outstanding lump sum accommodation bond amounts owing to them when they leave an aged care home will be repaid within the time periods required by legislation. The liability must be matched by an asset (usually a bank account) held in trust in the statement of financial position.

*Other Monies held in trust:* refers to any other monies held in trust that do not fit either of the above categories.

### **Lease Liabilities (Item 70)**

Relates to finance lease liabilities due within 12 months. For further information, refer to 'Leased Assets' in the Department of Human Services Finance and Accounting Manual for Public Hospitals.

### **Loans (Item 71)**

Short-term loans or cash advances from all sources including the Department of Human Services should be shown in this item.

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### **Other Current Liabilities (Item 72)**

Relates to any amount not otherwise included in items 63 to 71.

### **Total Current Liabilities (Item 73)**

The total keyed here must be equal to the sum of items 63 to 72. If the total does not add up, the system will display an error message upon completion of data entry and not allow the user to proceed with authorisation until the error is corrected.

## **Non-Current Liabilities**

### **Provision for Employee Benefits (Item 74)**

Refers to that portion of provision for employee benefits that is not due and payable within 12 months.

### **Lease Liabilities (Item 75)**

Relates to finance lease liabilities not due within 12 months. For further information, refer to 'Leased Assets' in the Department of Human Services Finance and Accounting Manual for Public Hospitals and 'Leases' in AAS17 (AASB1008).

### **Loans (Item 76)**

Long-term loans from all sources including the Department of Human Services should be shown in this item. Other Non-Current Liabilities (Item 77)

Refers to any amount not otherwise included in items 74, 75 and 76.

### **Total Non-Current Liabilities (Item 78)**

The total keyed here must be equal to the sum of items 74 to 77. If the total does not add up, the system will display an error message upon completion of data entry and not allow user to proceed with authorisation until the error is corrected.

### **Total Liabilities (Item 79)**

Manual input is required for comparison with the sum of items 73 and 78. The system will also automatically transpose the sum of items 73 and 78 to this item.

### **Total Equity and Liabilities (Item 80)**

The system will automatically transpose the sum of items 62 and 79 to this item. Manual input is also required for comparison with the sum of items 62 and 79.

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## Part 2B: Statement of Financial Position—Current and Non-Current Assets

### Current Assets

Current assets means cash or other assets of the entity that in the ordinary course of operations of the entity are sold, realised, consumed or converted into cash as part of entity operating cycle which is normally within twelve months after the end of the last reporting period of the entity.

#### Cash Assets (Item 81)

This refers to the consolidated debit bank balances of the entity.

Where a material amount of cheques have been drawn but not issued to suppliers, the amount should be added back to creditors payable and cash at bank for F1 reporting purposes. An amount equal or greater than 10% of the base amount is regarded as material. The base amount in this case is the total value of cheques drawn in the month.

#### Patient Fees Receivable (Item 82)

This item should only include patient fees. The amounts are to be shown net of any provision for doubtful debts. The Department of Human Services grants are to be included in accrued revenue receivable (Item 86).

##### *Item 82(i)*

Refers to all receivables not older than 45 days.

##### *Item 82(ii)*

Refers to all receivables older than 45 days.

#### Monies held in Trust (Item 83)

Refer to monies held in trust by the hospital on behalf of other parties. These are normally kept in a bank account for safekeeping.

#### Stores (Item 84)

The amount should be shown at book value at the lower of cost and net realisable value. Cost is determined principally by the first-in, first-out method. The amount reported should be net of any provision for stock obsolescence.

##### *Item 84(i)*

Refers to all inventories not older than 45 days.

##### *Item 84(ii)*

Refers to all inventories older than 45 days.

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### **Prepayments (Item 85)**

Prepayment arises when the hospital makes a payment during the current financial year that applies partly to a period within the current financial year and partly to a future period. The portion pertains to the future period is shown as prepayments. Commonly occurring prepayments include telephone rentals, insurance premiums and journal subscriptions.

### **Accrued Revenue Receivable (Item 86)**

This is a receivable account representing the difference between revenue accrued and payments received from the Department of Human Services. However, cash advances or loans from the department are to be excluded.

### **Debtors (Item 87)**

Refers to all amounts receivable within one year that have not been included in items 82, and 86, for example, invoiced trade debtors.

### **Other Financial Assets (Short Term Investments) (Item 88)**

Investments held by the hospital should be recorded at the lower of cost and net realisable value. This item is divided into cash and others. The reason for reporting the cash part of the investments is to facilitate its inclusion in the Cash at Beginning of Period and Cash at End of Period. Cash investments would include investments in money market instruments, bank or financial institution deposits and investments at call or which are highly liquid and readily convertible into cash within 24 hours. The classification between current and non-current assets depends on the expected timing of disposal of the investment. If disposal is not anticipated within 12 months the amount should be recorded in item 91.

### **Other Current Assets (Item 89)**

Other current assets' includes all amounts due within 12 months that are not specifically covered in items 81 to 88.

### **Total Current Assets (Item 90)**

The total keyed into the Total All Funds column must equal to the sum of items 81 to 89. If the total does not add up, the system will display an error message upon completion of data entry and not allow the user to proceed with authorisation until the error is corrected.

## **Non-Current Assets**

Non-current assets mean all assets other than current assets.

### **Other Financial Assets (Long Term Investments) (Item 91)**

General investments held by the hospital should be recorded at the lower of cost and net realisable value. Revaluation of land and buildings held as investments should comply with the relevant accounting standard. The classification between current and non-current assets depends on the expected timing of disposal of the investment. If the anticipated disposal is within 12 months for

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an investment then it should be recorded as Other Financial Assets (short-term investment) under item 88.

### **Long Service Leave Debtor – DHS (Item 92)**

Since the 2000–2001 financial year, the department has assumed the liability arising from the net increase in the long service leave (LSL) provision of public hospitals. Hospitals will therefore record a net increase in the LSL liability as revenue with the department a debtor. Hospitals are requested to seek further guidance from Circular 12/2002 (to be updated) (which replaces Circular 13/2001) issued on 28 May 2002 (<http://www.dhs.vic.gov.au/ahs/circular/index.htm>) by the department.

### **Non-Current Assets at Gross Cost (Item 93)**

The non-current assets include land and buildings, plant and equipment, leasehold improvements, motor vehicles, office furniture, assets under construction and library books. It should be noted that the threshold for recognition and capitalisation of a non-current physical asset is \$1,000.

### **Accumulated Depreciation (Item 94)**

Apart from land, all other fixed assets should be depreciated over its remaining useful life. The Victorian Healthcare Association has issued a list of depreciation rates that are suitable for use by public hospitals, subject only to unusual conditions prevailing with respect to particular assets. This list appears in Appendix ii (page 111) of the Finance and Accounting Manual for Public Hospitals. If an asset has been re-valued, the depreciation should be calculated on the re-valued amount rather than the historical cost. No depreciation is to be charged on capital works until the facility is complete and ready for use.

### **Intangibles (Item 95)**

These include the purchase of intellectual property or capitalised value of copyrights, patents, trademarks and licences that represent an enforceable right or benefit. Intangibles should be brought to account when an asset exists and has service potential or provides a future economic benefit. Research costs incurred and are expected beyond any reasonable doubt to be recoverable (for example, there is future economic benefit) should be deferred to future financial years. The deferred costs could then be amortised and matched with future benefits.

### **Total Non-Current Assets (Item 96)**

Total keyed in the Total Consolidated column must equal the sum of items 91(i) and (ii), 92, the difference between items 93 and 94(i) and (ii) and item 95. If the total does not reconcile, the system will display an error message upon completion of data entry and not allow the user to proceed with authorisation until the error is corrected.

## **Total Assets**

### **Total Assets (Item 97)**

Total Consolidated column has to be input manually and must equal to the sum of items 90 and 96. The system will also automatically transpose the sum of items 90 and 96 to this item. If the total does not correspond, the system will display an error message upon completion of data entry and

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not allow the user to proceed with authorisation until the error is corrected. The system also automatically compares this item with item 80 (Total Equity, Reserves and Liabilities).

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## Part 3: Indicators

### Performance Indicators

#### WIES (Item 98)

The intention is to establish the hospital's YTD throughput performance in relation to its targets and to understand what throughput the hospital is recognising in its YTD revenue.

The starting point is to record the YTD WIES estimate which will be coded as fundable and refine that figure to ascertain the WIES recognised as revenue. Separate columns for DVA, non-DVA and TAC are provided because over 'target' DVA and TAC throughput still earns revenue. The non-DVA column is further divided into 'public' and 'private' WIES due to different condition of funding such as rate differential.

#### YTD Fundable WIES (Item 98 (1i))

The exact current month WIES will in most cases not be known. The YTD WIES should include:

- The most recent YTD VAED fundable WIES for the prior months.
- VIMD fundable separations for the current month (include uncoded) converted to WIES.
- Accrual for patients not yet separated.

WIES that are subject to special funding arrangements and have been coded as such should be included in item 5 *Other Department of Human Services' funded WIES included as revenue*. A 1998–1999 example of this would be the AHCA elective WIES.

#### Same Day Medical Penalty (Item 98 (2i))

WIES over the same day medical cap is not funded. If a hospital believes that despite being over its estimated YTD cap it will be under the cap by end of the year, it should continue to accrue the over cap WIES as revenue. If the over cap situation is likely to persist, then that revenue should not be accrued and should be shown here. For example, if YTD over same day medical cap is 100 and at the end of year this is estimated to be 50 only, the end of year over target estimate of 50 should be entered here.

#### Other over target WIES not accrued as revenue (Item 98 (2ii))

The main inclusions here will be:

- Late coded throughput where significant
- Non-DVA throughput being over target at the end of the year and therefore not funded

If the hospital believes that despite being over its estimated YTD target it will be on or under the target by end of the year, it should continue to accrue the target WIES as revenue.

#### Quick Assets (Item 99)

This refers to liquid assets that can be converted into cash fairly quickly. For the purpose of this return, a cut off period of 60 days is used. Quick assets include Cash at Bank/on Hand, Patient

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Fees Receivable within 60 days (items 82(i) and (ii)), Accrued Revenue Receivable, Short Term Investments and the 60 days portion of Debtors and Other Current Assets.

**Quick Liabilities (Item 100)**

Quick liabilities are Bank Overdraft (item 63(ii) exceeded limit portion), Accrued Salaries and Wages, Creditors Payable within 60 days (items 64(i) and (ii)) and the 60 days portion of Accrued Expenses, Provision for Long Service Leave, Lease Liabilities, Loans and Other Current Liabilities.

**Solvency: Quick Asset Ratio (Item 101)**

This ratio is a measure of the hospital’s ability to satisfy its immediate obligations (quick liabilities) in the short term using a two-month time horizon. The measure is also known as the acid test on the immediate liquidity of the hospital. A hospital with a higher ratio is considered to have more liquidity. This ratio is computed by the system and is derived from dividing Quick Assets (item 99) by Quick Liabilities (item 100).

**Current Assets Ratio (Item 102)**

This ratio is a measure of the hospital’s ability to satisfy its obligations (current liabilities) in the short term using a twelve-month time horizon. This is a very broad measure of the margin of safety to creditors. The ratio is computed by the system and is derived from dividing Current Assets (item 90) by Current Liabilities (item 73). The ‘Total All Activities Projected Year to Date’ current assets ratio is derived from the projected statement of financial position as at 30 June 2004.

**DTF Liquidity Indicator (Item 103)**

The liquidity indicator was requested by Department of Treasury and Finance (DTF) and first introduced in 2000–2001 as part of the F1 reporting routine. The indicator is now incorporated into the 2003–2004 F1 to measure the short-term (three months) liquidity of hospitals. DTF also provided a formula, which is provided below to guide hospitals in computing the indicator. The indicator measures the number of times average trade creditors are covered by free cash available. DTF recommended a minimum coverage of two times.

In the year of introduction, there was wide variability in the size of indicator reported. While these indicators are no indication of inconsistency, there is strong indication that inconsistencies existed among MHS/hospitals in determining the key average trade creditors for computing the liquidity indicator. The department is proposing the following guidelines for the determination of average trade creditors to minimise the inconsistencies noted.

1. Accrual of Expenses

Accrued expenses relating to trade goods/services received but not been billed by suppliers or creditors at month end should be included as trade creditors of the MHS/hospital. Some examples of these are utility charges, medical supplies, food and consumables.

2. Salaries and Wages

Group tax and salary packaging are part of salary calculation and therefore form part of salaries and wages. These items should be excluded from trade creditors.

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Form F1 Part 4	Statement of Cash Flow

Employer's contribution of the superannuation is a liability if not paid by month end. This should be included as trade creditors.

Fringe Benefit Tax payable by employer is a liability if not paid by month end. This should be included as trade creditors.

### 3. GST

Net GST payable is a liability if not paid by month end. This should be included as trade creditors.

### 4. Builders' Accounts

The 'Free Cash Available' as required by the DTF indicator is net of capital works obligations on which payments were received in advance. If the builders' accounts relate to this category of capital work obligations, these accounts should not be included as trade creditors for purpose of determining these creditors. Otherwise there would be double counting of obligations or creditors.

### 5. Average Monthly Trade Creditors

The average is preferred as it helps to minimise fluctuations. The average means the simple average of trade creditors at the beginning and at the end of the reporting month.

For example, if trade creditors have an opening balance of \$1m and a closing balance of \$1.5m for the month, the average trade creditors for the month is \$1.25m.

## DTF Liquidity Indicator—Formulae (Item 103)

### A: *Liquid Assets*

- Bank balances
- Unencumbered liquid investments (below three months)
- Encumbered liquid investments (below three months)
  - a) Capital purposes
  - b) Specific purposes
  - c) Others (e.g. operating received in advance)

### ADD

B: DHS operating grants for next 3 months *less* wages and salaries for next 3 months

### LESS

C: DHS operating and Capital Works obligations for payments in advance (excluding SP funds) as at beginning of period.

- a) Operating
- b) DHS capital works
- c) Commonwealth capital works

### ADD (LESS)

D: Other Known Significant Cash Flows

For example, major changes in:

- a) SP Income versus Expenditure
- b) Debtor balances

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Form F1 Part 4	Statement of Cash Flow

c) Any other items

Equals: Free Cash Available

Indicator: Divide Free Cash Available by average monthly trade creditors (exclude funded capital work creditors) and other creditors (non-salary/wage items).

#### **Patient Fees Receivable Turnover (in days) (Item 104)**

The hospital is required to calculate this monthly ratio and enter it here. Turnover of patients' fees receivable is calculated by dividing the average amount receivable at the beginning and the end of the month by the daily average patient fees earned for the same month. The result is expressed as a number of days that patient fees are taken to collect. This turnover rate will be influenced by the speed with which private health funds and statutory bodies such as TAC settle their accounts. A fall in the ratio or a low rate indicates more effective collection.

#### **Entity Operating Budgeted Surplus (Deficit) (Item 105)**

The hospital is required to provide the monthly and year to date budgeted operating surplus or deficit which is used to compare with actual entity operating surplus /(deficit) as reported in item31.

#### **Key entity level benchmarking indicators (Item 106)**

The department continues to develop and implement strategies to enhance the viability of public hospitals. These include benchmarking key aspects of agency performance to enable hospitals to compare and identify areas for improvement. Three entity level indicators have been incorporated into the F1.

#### **Percentage of Sick Hours taken per employee**

This measure would be defined and calculated as:

$$\frac{\text{Sick hours taken} \times 100}{\text{Total Ordinary Hours}}$$

#### **Percentage of EFT Exits for the month**

This measure would exclude HMO rotations and contractor movements and would be calculated as

$$\frac{\text{Total EFT staff who terminated during the month}}{\text{EFT at 30 June}} \times \frac{100}{1}$$

#### **Net staff movements for the month**

This measure would exclude HMO rotations and contractor movements and would be calculated as:

$$\text{Total EFT employed during the month less total EFT who terminated during the month}$$

Finance	Finance Return
Form F1 Part 4	Statement of Cash Flow

## Part 4: Statement of Cash Flow

***The Statement of Cash Flow requires the combined presentation of information on actual as well as on projected basis.*** Under this format, cash flows are to be provided on a monthly basis for the current financial year. For example in the July F1 return, the July column reports on the actual cash flow for that month while the remaining eleven months provide the projected cash flow for the respective month. The 'Total' column is an aggregation of the actual and projected cash flows for the financial year.

The form and content (except for the projection requirement) of the Statement of Cash Flow is consistent with those of the Annual Report. The Statement provides useful information on the cash requirements of the public hospitals and how these requirements are satisfied. The information provided in the statement of cash flows together with other information in the financial report will assist in assessing the ability of a public hospital to generate cash flows and meet its financial commitments as they fall due. A Statement of Cash Flows is also required from hospitals in order to enable the department to meet the Government reporting requirements of the Department of Treasury and Finance.

A reconciliation of cash flows arising from operating activities to operating surplus of deficit as reported in the profit and loss account is not required for the Statement of Cash Flow.

In preparing this Statement of Cash Flow, hospitals should be guided by the provisions of AAS28. Most of the cash flow activities reported in the Statement are self explanatory or have been explained in other parts of the 'Instructions for Completing the F1' and the Annual Reporting Guidelines. The following clarifications are provided to facilitate the preparation of the Statement.

### Cash

Cash means cash on hand and cash equivalents. These cash equivalents consist of highly liquid investments with the following characteristics:

- short maturity periods,
- readily convertible to cash on hand at the hospital's option,
- subject to insignificant risk of changes in value

Borrowings which are integral to the cash management function and which are not subject to a term facility are to be included as cash. For purpose of the Statement of Cash Flow in the F1, 'Cash at End of Period' consists of overdraft (item 63), cash assets (item 81), money held in trust (item 83) and other financial assets (short term investment)—cash (item 88i).

### Capital Grants

This refers to grants received from government for capital purposes.

### Non-Government Capital Income

This refers principally to donations and bequests received for the purpose of acquiring non-current assets such as plant and equipment.

Finance	Finance Return
Form F1 Part 4	Statement of Cash Flow

### **Contributed Capital From Government**

This principally refers to liquidity injection and capital grants provided by the government for major redevelopment of hospitals. These contributions are normally recognised as revenue in the books of the receiving hospitals (Department of Treasury and Finance Bulletin No.39). Notwithstanding the receiving hospitals are not allowed to report the contributions as contributed capital unless notified in writing by the department to treat the liquidity injection and/or capital grants as contributions of capital.

Return of contributed capital to Government is also reported here.

### **Sale and Purchase of Investments**

Investments in this context refer to investment in shares and properties.

Finance	Finance Return
Form F1 Part 5	Supplementary Data on Expenses

## Part 5: Supplementary Data on Expenses

This part of the F1 is an adaptation of the note on operating expenses contained in the Annual Reports. It is intended to provide a better understanding of the behaviour of costs and EFT level in relation to output and enable the department to meet Government reporting requirements of the Department of Treasury and Finance. The following notes are provided to assist you in completing the return. These notes are applicable to both HSA and Non-HSA Services.

### Salary and Wages (Item 1i)

Salary and wages are divided into two categories. This includes salary and wages of all employees working a full-time or part-time basis and excludes fee-for-service medical officers. The 'Basic' grouping refers to the *ordinary rate* of salary and wages, annual leave, sick leave, other leave entitlements and public holidays. The 'Others' grouping is for staff costs such as overtime, penalty and allowances.

Salary and wages should be reported gross and not net of deductions or salary sacrifice arrangements.

### Workcover (Item 1ii)

All expenditure incurred for Workcover is reported here.

### Departure Packages (Item 1iii)

All expenditure incurred (including Long Service Leave) as a result of VDPs approved and funded by the department or the hospital. Both Targeted Separation Packages and Voluntary Departure Packages should be included.

### Long Service Leave (Item 1iv)

The total amount you would have provided for in the annual report (including adjustment arising from movements in bond/wage inflation rates) as required by AAS30 but excluding all expenditure related to VDP Packages.

### Superannuation (Item 1v)

All superannuation expenditure related to the various schemes.

### Agency Costs—Nursing (Item 2)

All expenditure incurred in engaging agency nursing staff.

### Fee-for-Service Medical Officers (Item 3)

This refers to payments made to a visiting medical officer appointed by the hospital to provide medical services on a fee-for-service basis.

Finance	Finance Return
Form F1 Part 5	Supplementary Data on Expenses

#### **Drug Supplies (Item 4)**

This refers the cost of pharmaceutical drugs and medication.

#### **Medical & Surgical Supplies (Item 5)**

This includes the cost of consumables of a medical and surgical nature.

#### **Food Supplies (Item 6)**

This includes the cost of supplying food and beverages to patients.

#### **Domestic Supplies (Item 7)**

This includes the costs of providing general housekeeping of buildings and residential accommodation and the collection and removal of rubbish by agency staff or external contractors. Costs of providing security and manning of car parks are to be reported here.

#### **Repair and Maintenance (Item 8)**

This includes the costs incurred in maintaining, repairing, renovating building and minor works. The activity aimed at maintaining or returning an asset to its usual service potential. Capital expenditure in excess of the threshold of \$1000 is to be excluded from repairs and maintenance. Do not include salaries and wages of repair and maintenance staff under this heading. Repair and maintenance should be reported gross without revenue offsets.

#### **Fuel Light and Power (Item 9)**

These include the costs of lighting, heating, fuel, cooling, water treatment and boiler operations concerns with generation / supply of energy.

#### **Leases (Item 10)**

This refers to operating lease rental expenses recognised during the period.

#### **Patient Transport (Item 11)**

This includes cost of transporting admitted and non-admitted patients to, from and between hospitals as outlined in 'Guidelines on Responsibility for Payment of Ambulance Fees'

#### **Administrative (Item 12)**

Administrative costs include direct expenses associated with the overall management and administration of the agency. Examples of these expenses are Board expenses, conference , freights, publication, advertising, IT supplies, communication, stationery and supplies, rents and rates and consultancy fees

#### **Other Expenses (Item 13)**

Other Expenses includes all expenses not reported in items 1 to 12 of F1 Part 5.

Finance	Finance Return
Form F1 Part 5	Supplementary Data on Expenses

### **Total Entity Operating Expenses (Item 14)**

'Total Entity Operating Expenses' of this form must agree with item 29 of F1 Part 1. The system matches the two figures automatically.

### **EFT (Item 15)**

The EFT information requested in item 15 is the overall actual current month base EFT figure without overtimes, penalty and allowances.

Finance	Finance Return
Form F1 Part 6	CEO or CFO Comments on Performance

## Part 6: Chief Executive Officer or Chief Finance Officer Comments on Performance

The comment should include the following areas:

### **Review Performance**

Review the monthly and year-to-date operating result with reference to the key influences on the reported surplus or deficit position. These influences may be financial (for example, accounting adjustments) and non-financial (for example, lower throughput).

### **Review of Projected Year End Result**

The key assumptions made on Projected Year End result should be disclosed and explained. If the trend in actual result appears to be contrary to the projected one, the disparity or variance should be explained.

### **Strategies and Progress Plan**

Details of action plan and the corresponding progress report is needed where the entity is reporting a significant deficit. The Plan generally outlines the major saving strategies and the progress report updated each month to tracks its implementation and effectiveness in financial terms.

### **Major Events**

Details of major events that have occurred beyond the control of the management and have a significant impact on the operating result or financial position of the entity. Examples of such events are industrial dispute, major break down of plant and equipment or forced shut down of facilities.

### **Off Balance Sheet Items**

The information is requested to enhance disclosure and better understanding of the financial performance and position of the Hospital. If any of the following items is applicable please provide the necessary details.

### **Unrealised Losses**

This refers to unrealised loss arising from transaction pending completion, maturity or disposal. Common transactions in this regard are investments in equity and managed funds where losses are not provided for in the accounts.

### **Litigation/Contingent Liabilities**

Litigation/Contingent Liabilities are those liabilities arising from decision, settlement or obligation that become payable or enforceable in certain circumstances against the Hospital. Examples would be:

- A guarantee given by the entity to secure a third party's debt.

Finance	Finance Return
Form F1 Part 6	CEO or CFO Comments on Performance

- Litigation where the probable outcome is unfavourable and may result in a material impact on the financial position of the entity.

### **Capital Commitments**

This refers to contractual obligation relating to capital project and purchases.

### **Subsequent Events**

This refers to event occurring after balance sheet date but relating to a condition existing as at that balance sheet date.

### **Cash Flows Variances**

Hospitals are requested to complete the table provided. Hospitals are also requested to provide explanation on the reported variances and are encouraged to use result of the variance analysis to improve forecast for future months.