

Macfarlane Trust

Health Services Directorate
Corporate Management

Restricted Management

Contents

1. Executive Summary
2. Introduction & Scope of Study
3. Background
4. Financial Controls (supporting the principal activities of the Trust)
5. Treasury Management Function (its operation)
6. Performance Management
7. Claims Management (the relationship of the Trust with other benefit providers)

1. Executive Summary

1.1 Introduction

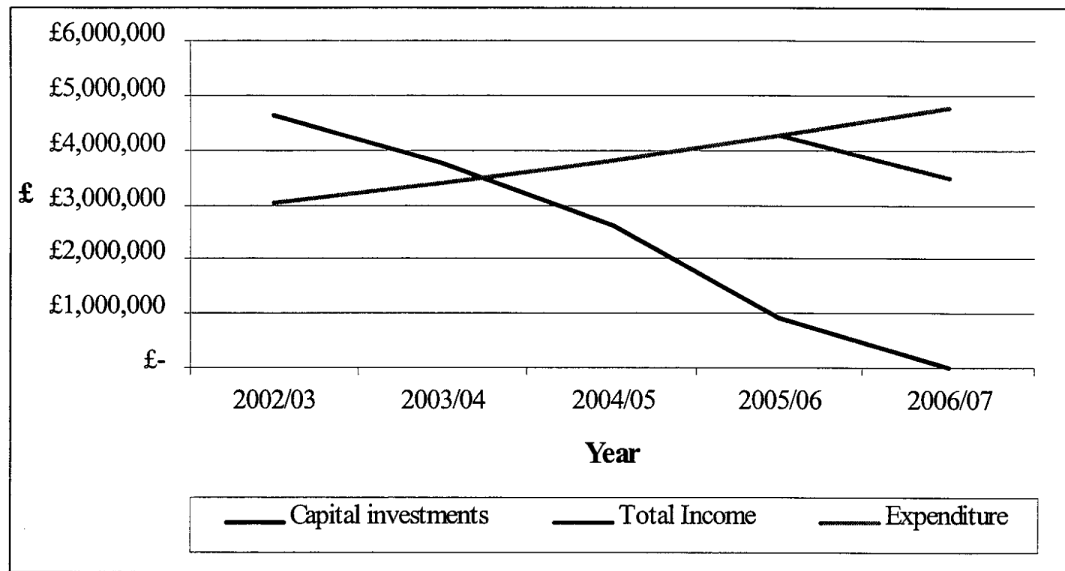
1.1.1 The Macfarlane Trust was established in 1988 to provide financial support to those people infected with HIV as a result of treatment with contaminated blood products. The Trust received £10,000,000 during 1988 from the Department of Health and has continued to receive capital grants to fund the financial support it provides to registrants and their dependants. As a result of the increased life expectancy of registrants and their changing needs, the financial assistance provided by the Trust has increased above predicted levels causing significant financial pressures. This report has been commissioned by the Department of Health, in response to such financial pressures, to review:

- (a) the Trust's financial controls;
- (b) the operation of the Trust's treasury management function;
- (c) the current performance management arrangements; and
- (d) the claims management process.

1.2 Findings

1.2.1 Based on the financial information available, we found that there are significant threats to the continuation of the Trust in its ability to provide financial support in both the medium and longer term. The most pressing issue is that of increased levels of expenditure, resulting in the 'short term' sale of capital investments to fund payments to registrants. Figure 1 below extrapolates the Trust's financial position over the next five financial years and is based on the following assumptions:

- (a) payment to registrants increase by 12% per year, based on the average annual increase since 1997/98; *if level not expected to continue at this rate.*
- (b) returns on investments remain constant at 4% per annum;
- (c) income from the Department of Health remains constant at £2.5million; and
- (d) the sale of investments is used to fund any shortfall in income and expenditure.

Figure 1: Extrapolated expenditure, income and capital investments

1.2.2 Figure 1 above demonstrates that, based on the assumptions outlined above, capital investments will be exhausted during 2006 and as a result, the Trust, could not continue to make future payments. At the end of 2006/7, the Trust would require an additional £1.3million income to break even.

1.2.3 In light of the above, we recommend that the following action is taken:

- (a) business planning processes should be carried out by the Trust which include:
 - forecast of likely future financial requirements in respect of both registrants and dependants;
 - cash flow forecasts;
 - the evaluation of options for the current provision of funds to registrants and their dependants, considering the type and amount of expenditure which the Trust reasonably expects to be able to provide to registrants;
 - the development of a financial planning strategy to enable the Trust to continue to meet its commitments; and
 - an assessment in respect the additional management resources required to meet the recommendations included in this report;
- (b) the Trust should submit an annual business plan to the Department prior to the commencement of a financial year. The business plan should not only cover the projected activities for the coming year, but also provide, as far as is reasonably possible, an early indication of pressures arising in subsequent financial years;

- (c) the Trust should, where necessary, provide a comprehensive business case to the Department of Health for where additional funds, in terms of both management costs and expenditure relating to registrants and their dependants, can be identified. The business case should use the analysis resulting from a structured business planning process to support future requests for increases in the current levels of funding;

*Quarterly
Sufficient*

- (d) ? monthly cash flow reports should be provided to the Board and to the Department of Health;

in hand

- (e) a review of the current investment strategy should be undertaken, in view of the current requirement to sell capital investments to fund payments to registrants; and

*? quarterly
Sufficient*

- (f) monthly reports to the Board and to the Department of Health regarding investment income and sales of capital investments should be produced by Trust staff.

1.2.4 Although we accept that the current practices in relation to the financial controls have provided the external auditors with sufficient comfort to enable the annual accounts to be signed off without qualification, we have identified several areas for improvement. These areas include:

Agreed

- (a) Procedures and policies should be documented and presented to the Board and the Department of Health for approval;

- u (b) Staff should be trained in basic financial procedures; and

- u (c) The monthly bank reconciliation statement should be reviewed by the Chief Executive or a trustee.

1.3 Conclusion

1.3.1 In order to continue to meet its role as stated in the Trust Deed, the Trust must, reconsider the way it utilises its financial resources, prior to identifying any additional funding requirements. To support any case for increased funds, the Trust should employ business planning processes to identify the anticipated future need as well as deciding on the level and type of funding that it should offer to registrants and their dependants in the future. In addition, financial policies and procedures should be documented and key financial controls should be present to provide the Department of Health with the assurance that, should further funds be made available, they will be applied for the purpose of benefiting registrants.

2. Introduction & Scope of Study

2.1 Introduction

- 2.1.1 The Department of Health has commissioned this review to consider how the Macfarlane Trust might make the most efficient, economic and effective use of resources by reviewing its financial controls, treasury management function and performance management framework, making recommendations where appropriate. In addition, the study will consider the claims management function, in particular, determining if claimants to the Trust may be eligible for benefits from alternative sources and the relationship between the Trust and other benefit providers.
- 2.1.2 The scope and methodology for the review, as agreed in the terms of reference are set out below.

2.2 Scope

- 2.2.1 The study will examine:
- (a) the financial controls supporting the principal activities of the Trust;
 - (b) the operation of the treasury management function;
 - (c) the current performance management arrangements; and
 - (d) the claims management process, having regard to :
 - the eligibility of claimants for Trust payments;
 - the eligibility of claimants for benefits from other providers;
 - the relationship between the Trust and other benefit providers.

2.3 Methodology

- 2.3.1 The study will include:
- (a) discussion with key stakeholders including the Department of Health, the administrators of the Trust and Trustees and representative Trust registrants;
 - (b) a review of documented policies and procedures;
 - (c) an analysis of a sample of claims paid out in the last 12 months;
 - (d) a comparison of the return achieved by the Trust through its treasury management function with rates available from alternative investment houses, subject to the restrictions contained within the Trust Deed and The Charities Acts; and

(e) a review of current performance indicators.

2.3.2 As part of this review, we have held discussions with Trust registrants, Trust staff, Trustees, the Chairman of the Haemophilia Society, Local Authority officials and Benefits Agency officials.

3. Background

- 3.1 The Macfarlane Trust ('the Trust') was formed in 1988 as a result of a campaign by the Haemophilia Society on the behalf of those people infected with HIV through NHS treatment with contaminated blood products in the late 70s and early 80s. The aim of the Trust is, *'to provide assistance to those who have been infected or the needy spouses, children and other dependants of such persons and needy spouses, parents, children and other dependants of such persons who have died'*, according to the terms of the Trust Deed. A grant of £10,000,000 was announced in Parliament on 16th November 1987 and the Trust was set up to administer this fund.
- 3.2 The Trust's top level management consists of 10 trustees, six of whom are appointed by the Haemophilia Society and four by the Secretary of State for Health. Trustees are appointed for a term of 2 years and can be nominated for re-election, (although those appointed by the Secretary of State should only be nominated for a second term as an emergency measure). Trustees appointed by the Secretary of State for Health must include a Haemophilia Centre Director and Social Worker. The day to day running of the trust is delegated to a team of five, led by Chief Executive, Anne Hithersay, and includes a social worker, benefits adviser, financial officer and administrator.
- 3.3 The Department of Health continues to be the Trust's principal single source of income. During the financial year 2000/2001, the Department provided a capital grant of £2.5million and a Section 64 grant of £192,600 to fund administration expenses. The Trust paid out a total of £2.7million to registrants and dependants in 2000/2001 and recorded a surplus of £35,373 as a result of the sale of £2.3million of capital investments.
- 3.4 At 30th April 2001 the Trust had 421 registrants, 411 partners or widows and 353 dependent children, with 19 of those being orphans. The Trust currently provides financial support to these individuals, according to the general guidance contained within the Trust Deed and detailed in the Macfarlane Trust Handbook. However, we understand that the Trust has not yet carried out any profiling of registrants and dependants to assess their likely needs either for 2001/02 or future years.
- 3.5 Through discussion with Trust staff, we understand that they possess a detailed knowledge of the registrants and their families and are able to predict, for example, when a young person will be ready to leave the family home and make a claim on the Trust. Should the level of expenditure continue to increase in line with past performance the Trust would be unable to continue to provide financial assistance to registrants during 2006.
- 3.6 The review has been commissioned by the Department of Health following concerns regarding the current and future financial position of the Trust, expressed by both the Trustees, the Chief Executive and the Department of Health. The Trust has increased payments made to beneficiaries by 42% over the last 3 years, from £1.9million in 1998/99 to £2.7 million in 2000/2001 (*Trust Annual Accounts, 1998/99, 1999/00, 2000/01*). A summary of income and expenditure over the last four financial years, relating to the General Fund, is shown below in Table 1. Table 2 summarises the income and expenditure relating to the Management Fund over the last four years.

Table 1: Analysis of Income and Expenditure of the General Fund

	31 st March 1998	31 st March 1999	31 st March 2000	31 st March 2001
Income				
Interest & Dividends	257,510	311,870	300,460	255,293
Gov't Capital Grant	3,000,000	-	2,000,000	2,500,000
Total	3,257,510	311,870	2,300,460	2,755,293
Expenditure				
Grants	294,521	398,516	579,518	459,688
Winter Payments	268,275	263,550	251,738	243,075
Regular Payments	1,337,915	1,313,825	1,350,815	2,004,793
Total	1,900,711	1,975,891	2,182,071	2,707,557
Unrealised (loss)gain on investments	1,300,000	91,839	(179,860)	(1,806,551)
Realised gain on sale of investments	152,383	53,650	149,876	1,111,126
Surplus/(Deficit)	2,809,962	(1,518,532)	88,405	72,314

Source: Audited Annual Financial Accounts

Table 2: Analysis of Income and Expenditure of the Management Fund

	31 st March 1998	31 st March 1999	31 st March 2000	31 st March 2001
Income				
S.64 Grant	177045	184508	261302	192600
Other income	29516	34338	31406	36543
Total	206561	218846	292708	229143
Expenditure	230799	256516	267486	266084
Surplus/(Deficit)	-24238	-37670	25222	-36941

Source: Audited Annual Financial Accounts

- 3.6 Expenditure relating to individual grants, which can be made for a range of items including house improvements, beds, mattresses and mobility allowances, has increased by 65% from 1997/98 to 2000/01. We understand that this type of expenditure has increased due to the decreasing mobility and inability to work, resulting in increasing reliance on benefits and support from the Trust as the disease progresses. The Trust has not, however, performed any trend analysis to project this type of expenditure based on the information collected by Trust staff and previous expenditure.
- 3.7 However, it is noticeable that these grants reduced after an across the board increase was made to the regular monthly payments during 2000, resulting in the increase of 48% in monthly payments from 1999/00 to 2000/01.

- 3.8 The Trust is reliant on income from dividends and interest to fund its expenditure requirements and in order to maintain sufficient cash resources must sell capital investments, reducing the balance of the Trust Fund year on year. This obviously reduces the balance on which the Trust can earn investment income. Between 1999/00 and 2000/01, the Trust suffered a reduction in investment income of 15%, due principally to the sale of £2.3million of capital investments and in part as a result of poor market conditions. The originating £10million capital is now £4.9million, at 31st March 2001, a reduction of 51%.
- 3.9 Figure 1, on page 3 of this report, demonstrates that by 2006, the Trust will have fully utilised its capital investments and will be unable to continue to meet registrants needs. We have reviewed the Trust's current treasury management function in Chapter 5 of this report.
- 3.10 Table 2 demonstrates the current deficiencies in funding management costs. The external auditors have noted in the 2000/01 accounts that the Management Fund has an accumulated deficit of £48,162 to be recovered from future Section 64 grants. In the meantime, the deficit is being financed by the General Fund.
- 3.11 As part of our review, we have identified a shortfall in resources to provide adequate financial controls, including business planning and cash forecasting. We accept that the allocation of a S.64 grant may not be the most appropriate source of funds, but rather a budget based on an assessment of the skills currently available to provide an adequate control framework which would assist both the Trustees and the Department in identifying financial risks and developing strategies to minimise those risks.
- 3.10 In order to maintain the current level of financial support to registrants, the Trust must consider:
- (a) the need for further injections of cash from the Department of Health and the preparation of adequate cash planning as part of a full business planning exercise which will incorporate a full needs analysis for the next three years in order to fulfil its obligations to registrants;
 - (b) reviewing the type of grants it is able to provide, for example, if it should provide any type of healthcare grants;
 - (c) the need for a management budget to be agreed with the Department of Health by assessing both the skills and number of management hours required to fulfil the day to day management duties and to act on the recommendations contained in this report. The results of this assessment should be presented to the department in the form of an annual business plan and business case fully supporting any required growth in financing; and
 - (d) whether the current arrangements or lack of mutual agreements with other grant making/public sector bodies is adequate to ensure that the Trust is not, in effect, subsidising these organisations.

4. Financial Controls (supporting the principal activities of the Trust)

4.1 Introduction

- 4.1.1 As a registered charity, the Trust must comply with the requirements set out in the Charities Acts. In particular, it must keep proper accounting records, which disclose, with reasonable accuracy, at any time, the financial position of the Trust and to ensure that the financial statements comply with the Charities Act 1993. To this end, it is essential that the Trust has an adequate system of controls in place and systems to enable accurate recording of its income, expenditure and investments.

4.2 Overall findings

- 4.2.1 To date the Trust has been able to submit unqualified audited accounts that meet the requirements of the Charities Act. In addition, the Trust employs a qualified financial accountant who has been proactive in developing some financial systems and controls. However, the controls which are in place do not ensure that adequate, reliable information on which to base sound financial management decisions. We found that the Trust's system of high level financial controls requires significant improvement, in particular, the lack of business planning, cash flow forecasting etc..

- 4.2.2 In addition, the Trust's lack of documented financial procedures and controls places the Trust at risk of losing its current financial management routine and controls, should the financial officer retire from the Trust. We understand that the newly appointed Treasurer is aware of this requirement and is currently taking action to remedy this. We identified current high level controls and have recommended additional controls for implementation by the Trust which include:

- (a) control account reconciliations;
- (b) bank reconciliation statements;
- (c) business planning;
- (d) cash flow forecasting;
- (e) documentation of policies and procedures;
- (f) reports to the board;
- (g) payments processing; and
- (h) IT controls

These are discussed below.

4.3 High Level Controls

4.3.1 High level controls are the key financial controls for an organisation and provide assurance to top management that the organisation is maintaining systems capable of accurate financial recording and producing information that can be relied upon for decision-making purposes. These controls include the completion of monthly bank reconciliation statements, financial reports to the Board, business planning incorporating strategic financial planning and control account reconciliations.

4.3.2 Control account reconciliations

4.3.2.1 We found that the financial officer does carry out a regular control account reconciliations in respect of BACS payments. As a result, some errors have been identified in the download used by the BACS processor. These have been rectified and the Trust is currently in the process of obtaining assistance from the relevant software suppliers in order to identify the underlying problem with the system.

4.3.3 Bank reconciliation statements

4.3.3.1 We found that bank reconciliations are performed on a monthly basis. However, there was no evidence of review by the Chief Executive or Trustee. We re-performed a bank reconciliation for July and found that it was accurate. The year-end bank reconciliation statement has also have been verified as to its accuracy by the external auditors.

4.3.3.2 Given the nature of the Trust, the requirement to draw down funds from the business account and from capital investments, we recommend that the Chief Executive or a Trustee review the monthly bank reconciliation statement on a timely basis each month and initial and date as reviewed. This would provide the Trust with assurance that transfers between accounts and investment funds are correct, that any discrepancies in expected payments are identified and that senior management is aware of the cash position.

4.3.4 Business Planning

4.3.4.1 We understand from Trustees and Trust staff that there is currently no business planning or strategic planning, in terms of:

- (a) an assessment of the types of claims the Trust can continue to provide other than the general guidelines provided in the Trust Handbook;
- (b) an assessment of the likely needs of registrants in the current year or in future years;
- (c) an assessment of the Trust's remit, for example, whether it should or should not consider requests for assistance with healthcare costs;

- (d) an assessment of the Trust's financial situation using modelling techniques to produce scenario specific outcomes, based on different levels of expenditure and the impact of increases or decreases in Department income. This analysis should include a review of current investment income, together with a review of the current investment strategy which would consider, amongst other factors, the sale of capital investments. This is discussed in greater detail in Chapter 5; and
- (e) an assessment of the Trust's internal management staffing requirements in terms of whole time equivalents and skills mix.

4.3.4.2 As a result, there is no financial strategy to address the increasing financial pressure on the Trust. In addition, the Trust does not produce business cases or evidence, in the form of cash flow forecasts, to support requests for additional financing either in terms of management resources or to increase available funding for registrants. In this regard, the Trustees may be breaching their duty to ensure that the Trust is able to continue to provide financial support to registrants and their families.

4.3.4.3 We understand, from discussions with Trustees, that the Trust is setting up a task force from a number of the newly appointed Trustees to address these concerns and report back to the Trust Board. However, we understand that this group does not, as yet, possess any terms of reference. The newly appointed Treasurer is particularly keen to encourage a similar business planning framework to that employed within the NHS and at the time of our review was preparing terms of reference for the group. We have provided a list of topics that might be considered in terms of a business plan. This is provided at Appendix A.

4.3.5 Cash Flow Forecasting

4.3.5.1 As part of the management information provided to the Board and to the Department of Health, a cash flow statement for the previous month and the forecast to the end of the year should be considered as essential to the basis of an informed decision-making process at Board Level. The cash flow statement should include investment income and receipts from the sale of any capital assets. We note that this is currently not provided to the Board within the Income and Expenditure statement, which results in an inaccurate financial out turn currently being presented. A three year cash flow based on a needs analysis of registrants and their dependants should be prepared as part of the business planning process identified above. Only then, can the Trust establish any shortfall in cash and provide appropriate evidence to the Department to support any request for additional funds.

4.3.6 Documented procedure and policies

4.3.6.1 The Trust employs a qualified accountant as the financial officer, to administer the day to day finances. He has introduced a system of controls, developed the existing finance systems for recording and monitoring purposes and ensures that the financial accounts are prepared for review by audit. However, none of the current practices are documented and

staff are not able to carry out, for example, a BACS payment run without the financial officer being present.

4.3.7 Reports to the Board

- 4.3.7.1 The performance management arrangements are discussed in detail within Chapter 6. However, the information currently provided to the Trust Board does not facilitate a fully informed discussion regarding the Trust's current or future financial status. In particular, the information provided within the management papers on investments only provides the current fund totals. There is no analysis with previous months, years or any other financial indicator such as the FTSE Index. In addition, the income and expenditure statement does not reflect any investment income. Also, the lack of cash flow statements and forecasts gives rise to the risk that Trustees may not be aware of the financial limitations when they are making decisions about grants, for example, and the life expectancy of the current capital investments.

4.3.8 Payments processing

- 4.3.8.1 The Trust makes its regular monthly payments to registrants by BACs transfer, (approximately £2million - 2000/2001). However, cheque payments are still made on a regular basis, (principally for guideline grants and Trustee authorised grants, approximately £0.5million -2000/2001). We understand that the financial accountant is currently reviewing the options for making all payments, other than emergency payments, by BACS. This would enable a more effective and efficient means of payment for both the registrants and the Trust.
- 4.3.8.2 We found that the bank mandate form was up to date and stated the authorised limits on expenditure by individual members of staff and requirements for dual signatures. We understand that staff are provided with a copy of the bank mandate. However, we found that there was some confusion by staff over the exact limits of their authority to raise cheques. Delegated limits would appear not to have been documented.
- 4.3.8.3 As part of our work, we selected a sample of 100 payments made during 200/2001, in respect of regular monthly payments to registrants, grants issued according to the Trust guidelines and those issued by Trustee approval. We checked payments recorded on the ledger to bank statements, to information on the registrants files and that held on the relevant database. We were satisfied that all payments had been made accurately, had been recorded on the relevant database and were approved.
- 4.3.8.4 However, during the months prior to our review, the financial officer had analysed all registrants details, including recorded benefits and had amended, where necessary, the Trust's monthly payments. This would suggest that there is a lack of a consistent financial control to ensure that correct payments are made. Registrant details must be the subject of a periodic review. In this way, the accuracy of the financial system is verified, while ensuring registrants details are correct and they are in receipt of the correct monthly payment.

4.3.9 IT controls

- 4.3.9.1 Although not within the terms of reference for this study, we noted some areas for development in the use of the Trust's IT systems. The systems used by the Trust have recently increased with the addition of a new database and developments, in particular, regarding the payments process and reporting functions of the general ledger system. Some IT training has been provided in the last year in the form of an external course, however, the systems within the Trust are very specific, having been adapted for the needs of the Trust. We noted that at present, there appear to be difficulties in extracting information from the new database. For example, Trust staff were unable to produce reports identifying the various types of grants issued by the Trust. We understand that the Trust is in communication with its software support providers but has had some difficulty in arranging required assistance.

4.4 Conclusion

- 4.4.1 The Trust's current financial management arrangements fail to provide adequate levels of financial information on which to base strategic decision making. We accept that this is in part a result of a lack of internal management resources to carry out business planning and related activities. However, we have recommended that the Trust should provide a business case to the Department for the review of its current staffing arrangements and benefits that this would provide, including the ability to report to the Department on its financial status and its ability to fulfil its requirements set out in the Trust Deed. Our recommendations are set out below.

4.5 Recommendations

It is recommended that:

- 4.5.1 The Chief Executive or Trustee reviews the monthly bank reconciliation statement on a timely basis and initials and dates the statement as such. This would provide the Trust with assurance that transfers between accounts and investment funds are correct, that any discrepancies in expected payments are identified and that senior management are aware of the cash position on a timely basis.
- 4.5.2 The Trustees continue in their efforts to establish a business plan incorporating, or in addition to, a financial strategy to address the Trust's underlying financial difficulties. In order to assist the Trustees, terms of reference should be agreed upon by the Chairman, Treasurer and Chief Executive. The planning should incorporate the following:
- (a) an assessment of current and future need of registrants over the next three financial years;
 - (b) an assessment of the types of claims the Trust can continue to provide in light of current financial constraints;

- (c) cash flow forecasts for the next three years based on a range of scenarios including different levels of forecast expenditure and the impact of increases, decreases or a nil change in the income provided to the Trust by the Department of Health;
 - (d) In terms of management costs, the Trustees should consider the current whole time equivalents and skill mix and assess whether, in the light of these recommendations a more appropriate balance should be maintained. A business case should then be developed using this information, supported by the data collected from the pay review conducted by external consultants, and presented to the Department for consideration as early as possible; and
 - (e) This analysis should include a review of current investment income, together with a review of the current investment strategy which would consider, amongst other factors, the sale of capital investments.
- 4.5.3 Cash flow statements and forecasts for the current year should be prepared on a monthly basis and provided to the Board and to the Department.
- 4.5.4 In order to safeguard the maintenance of adequate financial records in the future, current practices are documented and staff are trained in basic financial functions as required.
- 4.5.5 In order to clarify the position for existing and new members of staff, we recommend that delegated limits and the procedure for issuing cheques and/or bank automated transfers be incorporated within documented financial policies and procedures.
- 4.5.6 To ensure that Trustees continue to receive their correct regular payments we recommend that the Trust perform an annual sample check of 10% of the monthly payments to known benefits claimed.
- 4.5.7 The Trust review its arrangements with its current software suppliers to ensure that it is receiving the best value for money and to ensure IT training can be provided to staff as and when required.

5. Treasury Management Function (its operation)

5.1 Introduction

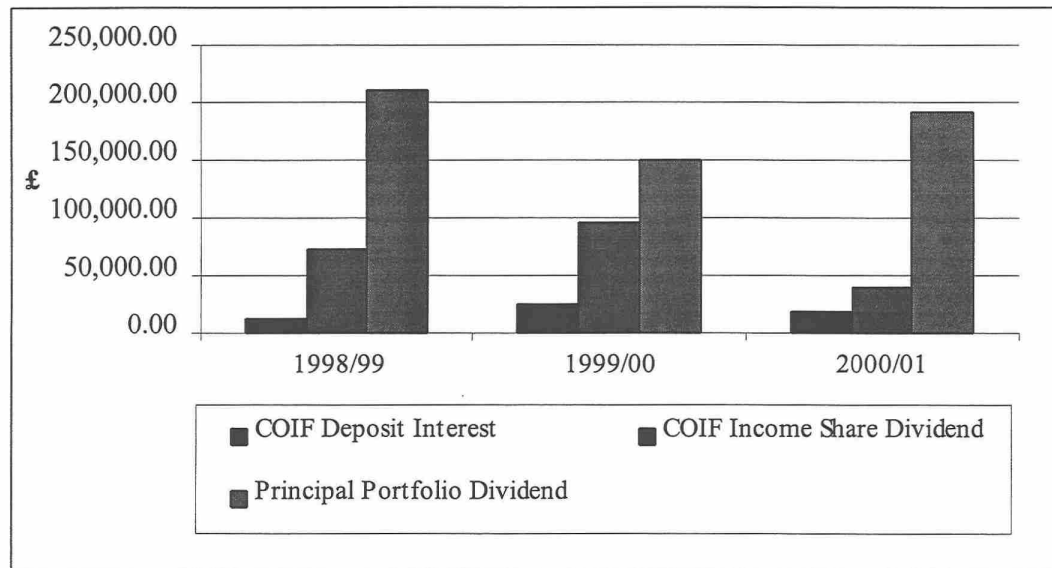
- 5.1.1 The Trust holds investments with the investment companies, COIF and Principal. As at 31st March 2001, these investments had a market value of £4.9million. In addition to its investment income, the Trust receives capital grants from the Department of Health, (amounting to £2.5million during the last financial year). These funds are initially transferred to a high interest bearing account before being transferred to the investment companies. The investment companies are made aware of the need to draw down funds on a monthly basis in order to meet the requirements of the outgoings. Investments are sold and the funds are transferred into the Trust's business call account. The decision to sell which type of investments is made by the relevant investment companies, as the experts in this field. As and when payments are made, the funds are drawn down into a current account. Payments are then made from the current account either by BACS transfers or cheque.

5.2 Overall findings

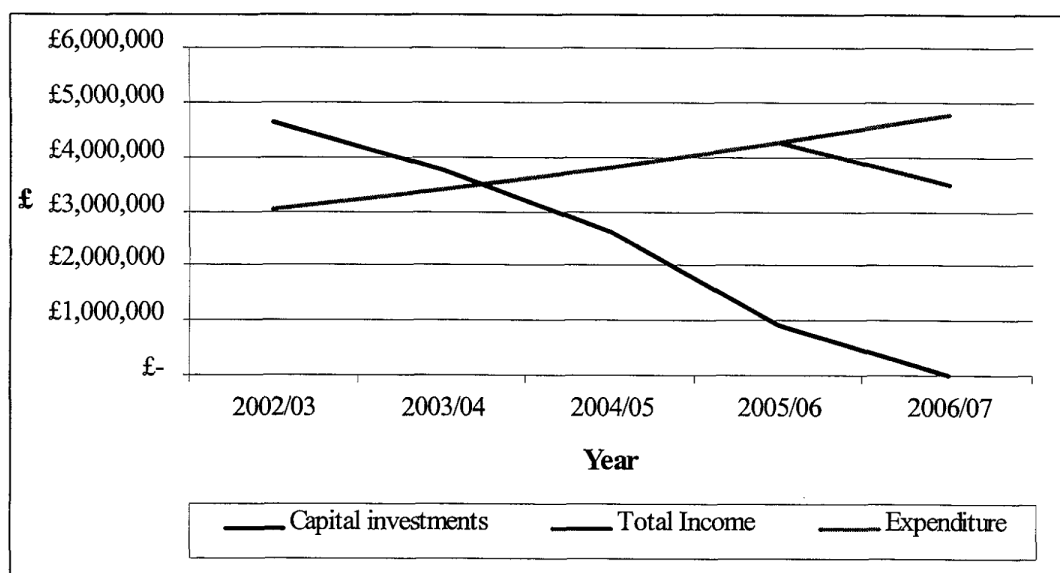
- 5.2.1 We found that, in view of the restrictions on the financial officer's time, the treasury management function provides an adequate rate of return when compared with market rates. However, we would question the current practice of applying the 'top up' grants to the investments. The grant itself could earn a similar, if not improved rate maintained in a 14 day deposit account, or rolled over each month on the money markets until the sum became uneconomical to invest. In particular, the sale of capital investments is not being made necessarily on the basis on the point of highest realisable value but as a result of a 'short term' cash need. We have noted some areas for further consideration, including a review of the Trust's banking facilities. These areas are discussed below.

5.3 Investment Income

- 5.3.1 The Trust's investment funds are managed by COIF and Principle. Over the last year, they have provided the Trust with returns of an average net yield of 3.53% for COIF, and 4.41% for investments held with Principle. An analysis of total income received in respect of these investments is shown below in Figure 2.

Figure 2: Analysis of Investment Income – 1998/99 to 2000/01

- 5.3.2 The overall reduction in income from 1998/99 reflects the diminishing balance of the managed trust fund. At 31st March 1999, the market value of the managed funds was £6.99million. By 31st March 2001 the market value of the funds had reduced to £4.947million, a reduction of 29% over the three years. The dip in the Principle portfolio dividend during 1999/00 reflected cash withdrawals of £282,000 and a downturn in the market causing an unrealised loss of £264,000. The diminishing balance of the capital investment funds is critical for the Trust as it is currently relying on the sale of these assets to support its principle function. We have extrapolated the current expenditure patterns based on an increase in average expenditure of 12% and an average rate of return of 4% per annum. If we assume that the Department of Health continues to provide £2.5million per year in 'top up' capital grants, the Trust would have fully utilised its capital investments during 2006, demonstrated in Figure 3 below. After this point, the Trust would not be able to continue to provide financial support to registrants.

Figure 3: Projected expenditure, income and capital investment balances

5.3.3 We have provided an analysis of the return received by the managed funds for the 3 months between 1st May and 30th June 2000, shown below in Table 3.

Table 3: Comparison of Managed Funds with Market Rates of Return

Fund	Rate of Return Over 3 months to 30 th June 2000 (%)
COIF Investment Fund	1.11
Principal Investment Fund	5.23
FTSE 100 Index	-3.06
FTSE World Ex UK Index	2.18
FTSE Government All Stocks Index	1.96

5.3.4 The relatively low rate of return in respect of the COIF investment fund reflects the composition of its holdings, of which 45% are UK equities. UK equities suffered a downturn during this period shown in the FTSE 100 index of -3.06%.

5.3.5 Principal has produced a very competitive rate of return at 5.23% and over the last five years have produced annualised returns of 17.5%, (*source: Principal annual report*), compared with average managed pooled funds of 12.5%, (*source: FT website*). Overall, the rates appear competitive, although given the current need to sell investments to maintain a monthly cash balance, the additional costs associated with each sale in terms of professional management fees may well outstrip the benefit of placing any additional funds with the investment houses. A full cost benefit analysis of various treasury management options should be provided by the Trust in its review of current investment policies.

5.4 Investment Strategy

- 5.4.1 The Trust's investment strategy was prepared in May 1998. At that time market conditions gave cause for a more cautious investment strategy with asset allocations of a maximum of 60% to be held in equities and 40% in fixed interest. The Trust may wish to revise this approach in light of current market conditions. In addition, the Chief Executive has raised a concern that the Trust should review its investment policy in line with ethical guidelines. We understand that the Trustees will be reviewing the current investment strategy, led by the Treasurer. We recommend that this process is carried out, together with the adoption by the Trust of a financial strategy to address the fundamental issue of increasing expenditure resulting in the significant reduction of the Trust funds.

5.5 Bank Accounts

- 5.5.1 The Trust currently uses Lloyds TSB for its high interest deposit account, its business call account and its current account. We have reviewed the use of these accounts over the year 200/2001 and our findings are set out below.

5.5.2 Deposit Account

- 5.5.2.1 The high interest deposit account was used in April to receive the £2.5million grant from the Department of Health. This earned £1160 in gross credit interest, equating to a return of 4.13%. We compared this to comparable rates which could be obtained by investment on the money markets. The comparable rate of interest available on the money markets at that time was 4.86% gross with HSBC and 4.65% gross with Lloyds. By investing on the money markets with HSBC the Trust could have achieved an additional £1,000 over the month. However, the Trust could not have withdrawn the funds for a period of one month, whereas their deposit account provides for only a 14 day withdrawal period.

5.5.3 Business call account

- 5.5.3.1 We reviewed the bank statements in relation to the business call account for the year 2000/2001. We found that the average monthly balance was £184,000. However, the account balance varies between £293,000 and drops to an amount generally no lower than £18,000. This swing occurs when regular and grant payments amounts are withdrawn from the deposit account and transferred into the current account prior to payment to the registrants. The interest earned in year from this account was approximately £3,600.
- 5.5.3.2 As the Trust must maintain its capability to withdraw funds at short notice, an instant access account is the only practical option in terms of bank accounts. In addition, the Trust does not have the resources to enable it to switch accounts on a regular basis in order to achieve the maximum return possible. We understand that the Trust has used internet banking in the past but has found difficulties in its application, principally in the time taken to download statements each day, monitor expenditure and arrange transfers on line while carrying out the day to day functions required by the Trust. In order to assess whether the Trust is obtaining the best value instant access account, we contacted a

number of banks and building societies to obtain their current rates for instant access accounts. These are identified in the table below.

Table 3: Instant Access Business Accounts

Alliance & Leicester	AER on Balances between £0 - £50,000	AER on Balances between £50k - £100,000	AER on Balances between £100,000 - £200,000	AER on Balances over £200,000
	4.65%	4.75%	4.85%	4.95%

Nat West	AER on Balances between £0 - £500	AER on Balances between £500 - £1999	AER on Balances between £2,000 - £24,999	AER on Balances between £25,000 - £99,999	AER on Balances between £1,000,000 - £2,499,999
	0.6%	1.21%	1.46%	1.81%	2.27%

Barclays	AER on Balances between £100 - £2,000	AER on Balances between £2,000 - £25,000	AER on Balances between £25,000 - £100,000	AER on Balances between £100,000 - £250,000	AER on Balances between £250,000 - £250,000
	1.357%	1.559%	1.964%	2.117%	2.371%

Yorkshire Building Society	AER on Balances of £100 +
	4.45%

Leeds & Holbeck Building Society	AER on Balances of £0 - £5,000	AER on Balances of £5,000 - £25,000	AER on Balances of £25,000 - £50,000	AER on Balances of £50,000 - £100,000	AER on Balances of £100,000 +
	1%	4.25%	4.30%	4.4%	4.85%

Lloyds TSB	AER on Balances of £1 - £999	AER on Balances of £1,000 - £9,999	AER on Balances of £10,000 - £49,999	AER on Balances of £50,000 - £249,999	AER on Balances of £250,000 +
	1.46%	1.71%	2.02%	2.38%	2.58%

Source: bank/building Society web sites and contact direct by phone with bank/building society headquarters

NB:

- (i) The Yorkshire Building Society Account is available only to registered charities.*
- (ii) Barclays Bank and Lloyds TSB require a Lloyds TSB current account to withdraw and deposit funds*

5.5.3.3 It appears that the current banking arrangements do not provide the best possible rates for the Trust, although they are comparable with the high street banks, Nat West and Barclays. The account with the Alliance and Leicester is a new business account and on enquiry, the staff were extremely keen to point out that the rates were negotiable. Currently the Trust holds a current account in order to withdraw funds from its business call account. The Yorkshire Building Society, Alliance and Leicester and Leeds & Holbeck do not require a current account. Unlimited transactions can be made at any time, without loss of interest. Transactions can also be made by phone and in most cases by internet banking.

5.6 Conclusions

5.6.1 The Trust should review its current investment strategy, providing alternatives to be submitted to the Department of Health and referenced to its cash flow forecasting and business planning processes. In addition, the management of the investment strategy may have management cost implications which should also be considered in developing proposed strategies.

5.7 Recommendations

It is recommended that:

5.7.1 The Trust updates its investment strategy in light of current market conditions and incorporates that within an overall financial management plan for the next 5 years.

5.7.2 The Trust review its current banking arrangements in order to achieve a more competitive rate of interest, maximising the potential income of the Trust.

6. Performance Management

6.1 Introduction

- 6.1.1 In order to ensure organisations are achieving their stated objectives, performance management systems are utilised. Key performance indicators are identified and targets set for each objective. The Board can then make informed decisions based on its actual performance against targeted performance. In terms of performance monitoring within the Trust, the costs of preparing the data must be balanced against the competing interests of dealing with day to day matters.

6.2 Overall findings

- 6.2.1 Overall, the performance management arrangements at the Trust require further consideration by the Trustees. In particular, finance and investment activities should be reported in greater detail, together with expenditure on the various types of grants. We have already discussed the lack of information regarding investment income, resulting in a failure to present the true financial position at the end of each month. In addition, the cash balance is vital in maintaining the current level of payments and cash flow statements and forecasts are currently not provided to management. We discuss each of the potential performance indicators below.

6.3 Financial performance

- 6.3.1 The Trust measures performance by reporting its financial position each month. However, it does not report on the value of income earned through investments. This can distort the overall financial position, giving Trustees the impression that the fund is in deficit when income from investments may result in a surplus. Whilst the Trustees do receive regular reports from their investment fund managers COIF and Principal, these are not discussed at Trust Board. Targets in the form of the Trust's actual position against a cash flow forecast should be reported to the Board and the Department. The objectives stated within the Trust's business plan, which we have recommended to be adopted, should include detailed income and expenditure plans which can then be linked to performance objectives and reported on accordingly.
- 6.3.2 The Trust monitors performance of its management costs by determining the budgeted allocation against the actual expenditure each month. There are currently no budgets set for particular types of grants. We accept that this would be extremely difficult, as the issue of grants is demand led. However, as part of the Trust's new business planning process, Trustees may wish to review the nature and scope of grants that the Trust should provide in the future given the resource constraints and changing needs of registrants.

6.4 Analysis of expenditure

- 6.4.1 The Trustees do not currently receive any analysis of expenditure on the various types of grants it provides. However, we understand that the Chief Executive is planning to provide this information to the Board on a regular basis. This will facilitate the strategic and business planning process and facilitate any discussions with the Department of Health or other services, in providing evidence of potential shortcomings in the benefits system which results in additional costs to the Trust. We have provided an analysis of expenditure on guideline and trustee approved grants in Chapter 7.

6.5 Analysis of new state benefits and grants applied to registrants

- 6.5.1 The Trust employs a benefits officer who is able to provide advice and assistance in processing claims for state benefits, social fund grants and local authority grants. Information regarding any new benefits is input onto a database and used to adjust the monthly payments to registrants, which are based on a sliding scale depending on the level of state benefit received. However, the number and type of these successful applications is not currently reported to the Board. This information, together with the number and type of rejected applications, together with any reasons for those rejections, may assist the Trust Board in presenting evidence for additional funds as part of a business case. The information may highlight difficulties, particularly in obtaining local authority grants and provide evidence in terms of numbers of claims refused. The Trust could then quantify to what extent it is subsidising these organisations.

6.6 Conclusions

- 6.6.1 The Trust's performance reporting has been commented upon earlier in the report, but principally, the lack of financial and activity targets, either in terms of management costs and the general fund, does not currently provide any evidence for increased funds and hinders decision making at Board level.

6.7 Recommendations

It is recommended that:

- 6.7.1 In future, the Board reports to the Trust and to the Department of Health its monthly financial position, including interest, dividends and income from the sale of capital investments. In addition, a brief summary of the rate of return on the investments should also be incorporated within the Trust Board, at least on a quarterly basis.
- 6.7.2 The Board and the Trust should report on a monthly basis against financial targets, including cash flow position, which should be included within the business plan.
- 6.7.3 In future, the Trust Board receives reports detailing the number and type of successful benefits obtained as a result of the work of the benefits officer, together with unsuccessful claims with a view to:

- (a) quantifying any potential subsidy which the Trust is effectively providing; and
- (b) providing evidence for any future business cases for changes to funding arrangements.

7. Claims Management (the relationship of the Trust with other benefit providers)

7.1 Introduction

- 7.1.1 The procedure for Macfarlane Trust claims is based on the Trust responding to the needs of the registrants, as stated in the Trust Deed. If the claim is for an item of expenditure outside the normal guideline grants, the matter can be put forward to the Trustees. In the last year, claims have been accepted for complimentary therapies, including aromatherapy, computers and university degree courses. These are reflective of the changing nature of the needs of registrants who are living longer and want to develop a working life. We understand from our discussions with registrants, Trust staff and Trustees that the Trust provides grants which should otherwise be made available from other government agencies and authorities but that these organisations are currently failing to deliver an adequate service for the needs of the registrants. The claims management process and relationship with other organisations is discussed further, below.

7.2 The Claims Management Process

- 7.2.1 The Trust employs a benefits officer to provide advice and assistance to registrants in obtaining available state benefits and local authority grants. In addition, the Trust also employs a social worker who can assess claims made to the Trust for guideline grants, determine whether, for example a claim should be made to the Social Fund or refer on to the benefits officer for further advice. Grants which meet guideline specifications can be approved by two members of the Trust staff according to a scheme of delegated authorities which we have recommended be incorporated within documented financial procedures and policies. Other grants may be submitted to the Trust Board for consideration.
- 7.2.3 We reviewed a sample of all types of grants to trustees and were satisfied as to their accuracy and that they fell within the guidelines or were appropriately approved. We also noted that a number of grants are refused by trustees at most Trust board meetings. The reasons for refusal included that the goods or services, although would improve the quality of life of the registrants, they were not appropriate within the terms of the trust deed. However, the Trustees have been extending type of grants available, to include items such as computers and fees for degree courses.
- 7.2.4 We noted that once funds are approved, payment is generally made to Trustees rather than to the providers of the goods and / or services. Only in the case of high value items such as some home adaptations, are the funds paid direct to the suppliers on receipt of the invoice and notification from the registrant that they are in receipt of the goods or services. To ensure that the funds are spent for the purpose for which the application was made, Trustees are requested to submit receipts. However, receipts are not always received.

- 7.2.5 During the course of our review, we noted, together with the Chief Executive, that the Trust cannot currently claim back VAT as a result of its charitable status. However, as a special health authority, VAT could be reclaimed, depending on the type of expenditure incurred. This would require further review by the Trust Board and the Department of Health. In particular, the Trust Deed would be revoked and statutory authorisation provided to set up the authority.
- 7.2.6 The Trustees also expressed concern over the funding of management and administration costs which supports the claims management process by a Section 64 grant which does not provide the reassurance of continued funding, nor does it currently cover the full costs of the administration. At the 31st March 2001, a balance of £52,860 was owed by the management fund to the general fund. Whether or not a change in status occurs, the current financial situation, the need for adequate financial management and control and the increasing demands placed on the Trust, mean that the Trust must be able to rely on the adequate provision of funding to support its management costs.

7.3 Relationship with the Haemophilia Society

- 7.3.1 The Trust has on its Board of Trustees, nominated representatives of the Haemophilia Association. The Chairman indicated that the general role of the Society and Trust are separate with the Society being a campaigning organisation, raising awareness of the needs of haemophiliacs. However, there are areas of overlap in providing advice and assistance. The Haemophilia Society provides phone lines offering assistance in claiming benefits and counselling support. Some joint work has been carried out, including an HIV partners weekend. The Trust and the Society have also been able to provide input into a national specification for the care of people with haemophilia, drafted by the Haemophilia Alliance. This good practice should be developed in terms of regular updates on the services provided by each organisation in order that registrants can be made fully aware of all available services and which organisation provides the most appropriate service.

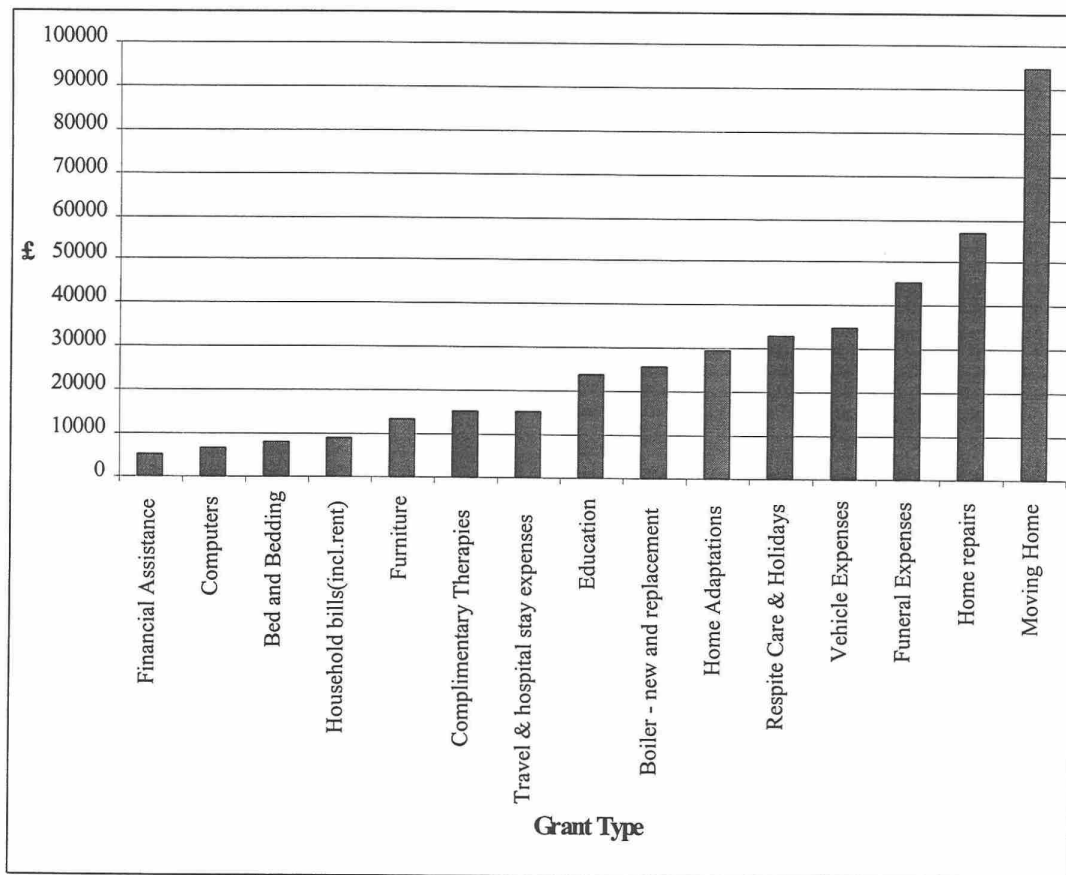
7.4 Relationship with other benefit providers

- 7.4.1 Although registrants may be eligible for payments from the Benefits Agency, it is felt by both registrants, Trustees and Trust staff to take too long to process applications. In addition there appears to be a confidentiality issue, with registrants having to apply at their local agency, risking those within their community discovering their HIV status. In the past, we understand there have been instances of claimants suffering harassment as a result of breaches in confidentiality. Registrants felt unable to trust the process within the Benefits Agency, in particular, one registrant felt the indignity of applying for benefits was something that registrants should not be required to go through.
- 7.4.2 Another potential source of income is the Local Authorities. However, Local Authority grants are cited as taking a number of weeks to be issued, which, in the case of registrants can cause serious impairment to their health, for example, where they require central heating to be repaired. In addition, we understand that registrants often feel frustrated with the application process as the Local Authority can refuse grants on the basis that they

have reached their quota or budget for that type of grant in that financial year, despite the applicant being otherwise eligible.

- 7.4.3 We are unable to quantify the value of the benefits provided by the Trust, where the registrant may have been eligible for benefits from other sources, such as the Benefits Agency. After discussing this issue with Benefits Agency staff, we would require detailed information in relation to each applicant's individual claim, with a benefits assessor determining if the registrant was eligible. In terms of the Local Authority grants, the situation is slightly more complex as each Authority may have slightly different assessment procedures and rules and we would need to determine whether at the time of each application whether that Local Authority had exceeded its budget or not.
- 7.4.4 We understand that it may be possible to determine whether registrants are claiming from both the Trust and the Benefits Agency for one-off grants, however this would involve disclosing Registrant details to the benefits office for processing within the fraud office of the Agency. This is a matter for the Trustees to consider further.
- 7.4.5 We have, however, been able to the value and types of grants made as a result of information provided by the financial officer who records the details of payments. The following chart shows the 15 most significant areas of expenditure by type of expenditure and value provided by the Trust during 2000/2001. We have provided a breakdown of this expenditure by trustee approved grants, guideline grants and advances to the Chairman. We understand that this type of analysis is to be provided to the Trustees at its future Board Meetings.

Figure 4: Analysis of Grants paid during 2000/2001 – Top 15 highest areas of expenditure



Source: Extracted from information recorded on the Trust general ledger, provided by the financial officer.

7.4.6

The most significant item of expenditure relates to moving home at £94,690. Home adaptation grants, including repair works are available from Local Authorities. However, due to the restrictions placed on the type of adaptations allowed and the capped nature of the grant function, the Trust results in spending 19% (£86,785) of its annual grant expenditure in this area (home adaptations plus home repairs). The Trust has provided furniture with a value of £13,500 to trustees which may be a reflection of grants refused by the Social Fund. This does not include £8,116 paid out in relation to beds and bedding. Given the expenditure shown above, it may be more applicable for monies to be top sliced from the Benefits Agency, Social Fund and Local Authorities and provided to the Trust based on an estimate of future needs of the registrants. This may be an option within the cross cutting policies being implemented between Health Authorities and Local Authorities. Alternatively, where the Trust provides a benefit which, in the opinion of the Benefits Adviser should be more appropriately funded by another organisation, these payments, should, after review by an independent assessor, be refunded to the Trust from the relevant organisation. This would remove the current difficulties in registrants seeking payments from, for example, their local benefits agency and would ensure the Trust is not, in effect, subsidising these organisations.

7.5 Impact of new pressures

- 7.5.1 The Trust does not currently provide healthcare other than alternative therapies. However, as treatments become available and where these treatments are not provided by the NHS, they become an additional potential pressure on the Trust. The current guidelines are so wide they could include all types of treatments provided the Trust Board agreed it was a deserving case. This is particularly problematic where the Trust is now beginning to consider issues such as fertility treatments for younger registrants and the impact of the provision of recombinant factor 8. In addition, as the life expectancy of registrants increases, there is a greater challenge to assist them in seeking employment, involving education grants as well as increasing demand for adapted cars.
- 7.5.2 We have already recommended that the Trust develop a strategy in view of these additional pressures, which may involve restricting the nature and type of grants that the Trust may offer in the future.

7.7 Recommendations

It is recommended that:

- 7.7.1 As a matter of probity, receipts are requested from all registrants who receive funds/and that it is made clear that where receipts are not provided, this will be taken into account when considering further claims to the Trust. *over £500*
- 7.7.2 That the Department of Health reviews the implications of changing the status of the Trust to a special health authority. The review should include the cost implications involved in the change and tax advice should be sought to quantify the actual benefit that may be obtained.
- 7.7.3 That Trustees prepare a business case, with full costings for the current year, together with estimates for the next three years, to the Department of Health to support its case for management funds to be provided by a more appropriate method.

Appendix A**Key topic areas:**

1. The Trust deed
2. Mission Statement:
 - (a) Macfarlane Trust (statement of the Chief Executive / Board)
 - (b) statement from the Department of Health
3. Summary of previous year's performance / activities:
 - (a) financial performance:
 - receipts
 - investment returns and performance
 - profiled grants to registrants
 - operating costs
 - cash flow statement for period
 - (b) registrants profile
 - (c) achievements and shortfalls
 - (d) new developments
 - (e) performance and quality initiatives
 - (f) changes / major developments
 - (g) External auditors report
4. Coming year's performance:
 - (a) projected financial performance:
 - forecasted receipts
 - forecasted investment returns and performance
 - forecasted profile of grants to registrants
 - forecasted operating costs
 - forecasted cash flow statement for period
 - (b) projected registrants profile
 - (c) emerging pressures

- (d) projected performance and quality initiatives
 - (e) expected changes / major developments (within the wider environment)
5. Financial statements:
- (a) cash flow statement (covering 3 years – year forecasts, coming year – 1 and coming year –2)
6. Business case(s) for additional funding