

Work programme for accounting treatment advice

Ref	Purpose	Test and references to other documents	Conclusion	Completed
1	To assess demand risk	<p>Obtain latest estimates of population growth in Ayrshire (GRO).</p> <p>Consider further evidence on trend towards home births.</p> <p>Assess financial impact of significant changes in demand on bidder's financial model, assuming various levels of probability.</p> <p>Refer sensitivity table.</p>	<p>Projected birth rates in Ayrshire were as stated within the ITN (Table 3; Section 4). These figures were sourced from General Register Office for Scotland and represent projected levels at 2000. A further update to this has become available (attached). These 2002 figures show a slight decrease in Ayrshire and Arran births, however we would not view this variation as being material to the project.</p> <p>The current levels of home births in the Ayrshire area as at 2002 is 0.73% of all births. We have been advised by GRO that there are no <i>projections</i> available for home births for Scotland. As an alternative we attach a letter from A Cunningham (Senior Nurse/Midwife Manager) which comments on figures that have been collated internally. This additional evidence supports the view that home births are not expected to have a significant impact on the project.</p> <p>The Board also produced a paper further documenting their views on this matter.</p> <p>In addition a quantitative assessment was performed within the Monte Carlo analysis.</p> <p><u>Sensitivity Results:</u></p> <p>Refer excel worksheet</p>	

APPENDIX 14

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2	To assess residual value risk	<p>Consider a range of future values of the facility.</p> <p>Current model is nil residual value. Capital build value is £15.992m. Sensitivity table to assess possible residual values.</p> <p>Assess impact on equity returns for bidders.</p> <p>Refer sensitivity table.</p> <p>Consider a range of values for maintenance in connection with handback procedures.</p> <p>Life cycle increases by £1m, £2m and £3m.</p> <p>Assess impact on equity returns for bidders.</p> <p>Refer sensitivity table.</p>	<p>The Base Case model assumes a nil residual value as it is expected that the facilities will be handed over to the Trust at the end of the project for no further consideration. A range of residual values have been considered within our sensitivity analysis to assess the impact on the private Sector were there some residual value.</p> <ul style="list-style-type: none"> ○ +£5m receipt has been modelled to assess the impact if monies were received from the Trust ○ -£5m payment has been modelled to assess the impact on the private sector if dilapidation work were required. <p>In addition we have run sensitivities to assess the impact on the Private Sector of additional maintenance work. The current model life cycle assumes a real total value of £4.310m, and we have tested £1m, £2m and £3m increases on this.</p> <p><u>Sensitivity Results:</u></p> <p>Refer excel worksheet</p> <p>Please note the -£5m payment can never occur under the current agreement and therefore shows the same results as the base case model.</p>	

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3	To assess design risk	<p>Assess the probability of a design problem arising.</p> <p>Refer further risk analysis.</p> <p>Assess the likely impact of a significant design problem arising.</p> <p>Refer further risk analysis.</p> <p>Assess impact on equity returns for bidders.</p> <p>Refer sensitivity table.</p>	<p>We have performed a risk assessment based on our estimate of the potential design fees within this type of project (based on capital cost). This is attached. The output figure of potential cost increases has then been run as a sensitivity.</p> <p><u>Sensitivity Results:</u></p> <p>Refer excel worksheet</p>	

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4	To assess Third Party Use risk	<p>Identify the potential sources of Third Party income, using bidders' proposals and Trust knowledge of similar facilities.</p> <p>The Trust view the potential for third party income as being minimal, with the following specific areas being identified:</p> <ul style="list-style-type: none"> ○ Car parking – The current Trust policy is that there will be no car-parking charges. The Trust would therefore be unwilling to have car-parking charges for the Maternity Hospital only. A change to a system where car-parking is charged for would be a Trust wide change in policy. There is therefore no potential for third party income in this particular area. ○ Private healthcare use of facilities – The Trust has no requirement for this due to the nature of a maternity hospital, in that there is no waiting list in this type of facility. ○ Shop – There is currently a main hospital shop run by volunteers that operates on the Crosshouse site. The need for a Maternity specific shop is therefore reduced, however on a best-case scenario a Maternity shop could be opened which would be run by volunteers thereby maximising profitability. The maximum 	<p>We believe that third party income potential is minimal due to the reasons document across. The maximum levels of third party income that the Trust believe is possible has been assessed as a sensitivity.</p> <p>Sensitivity Results:</p> <p>Refer excel worksheet</p>	

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		<p>projected levels of profit that the Trust estimate would be available would be £10k-£20k per annum (excluding any build/FM/life cycle impact). This will be considered further within the table of sensitivities.</p> <ul style="list-style-type: none"> ○ Accommodation leasing – This has been considered previously by the Trust however there is currently no under utilisation of accommodation and therefore this is not available as a source of income. <p>Identify any restrictions imposed on the generation of Third Party income.</p> <ul style="list-style-type: none"> ○ Refer above – all restrictions discussed under individual sections. <p>Assess impact on equity returns for bidders.</p> <p>Refer sensitivity table.</p>		

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5	To assess penalties for under performance	<p>Produce a payment mechanism testing model.</p> <p>Refer payment mechanism model and payment mechanism testing model that runs a variety of scenarios. The project has been considered on a 30-year basis and 3 different scenarios have been run showing the potential for loss of income over the 30 year period. These 3 scenarios have then been run as sensitivities (refer below).</p> <p>Assess impact on equity returns for bidders.</p> <p>Refer sensitivity table.</p>	<p>We have produced a functional payment mechanism model which is available as an excel spreadsheet. This has been used to build up a number of scenarios (also available as a functional excel spreadsheet). The results of the scenario testing are attached and these results have been used as the basis for sensitivities.</p> <p><u>Sensitivity Results:</u></p> <p>Refer excel worksheet</p>	

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6	To assess bidder's accounting treatment	<p>Identify chosen accounting policy</p> <p>Lease debtor accounting treatment and Composite trader tax treatment.</p> <p>Identify the reason for the particular choice of accounting policy.</p> <p>Deloitte have reviewed the various assumptions and have concluded that lease debtor and CTT are the most appropriate accounting and tax treatment for the bidder. This is further supported by the market norm, in that the overwhelming tendency is for standard health PFI projects to be accounted for as a lease debtor. The appropriate Inland Revenue COP10 clearance has now been received.</p> <p>Where the bidder is not recognising the facility as a fixed asset, identify how the facility is recorded.</p> <p>The facility appears as a lease debtor.</p>	<p>Lease debtor and CTT are considered appropriate for a Project of this nature as further substantiated by the Inland Revenue clearance.</p>	

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