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WALES

Pwyllgor Gwasanaethau Iechyd  
Arbenigol Cymru (PGIAC)  
Welsh Health Specialised  
Services Committee (WHSSC)

		Agenda Item	
Meeting Title	<b>Audit Committee</b>	Meeting Date	29/06/2020
Report Title	Report on the Final Audited Financial Statements 2019/20		
Author (Job title)	Financial Accountant		
Executive Lead (Job title)	Director of Finance	Public / In Committee	In Committee

Purpose	To brief the Audit Committee on the WHSSC Financial Statements for the financial year ended 31 <sup>st</sup> March 2020.			
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RATIFY <input type="checkbox"/>	APPROVE <input type="checkbox"/>	SUPPORT <input type="checkbox"/>	ASSURE <input type="checkbox"/>	INFORM <input checked="" type="checkbox"/>
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Sub Group /Committee	Audit Committee	Meeting Date	29/06/2020
	Choose an item.	Meeting Date	<a href="#">Click here to enter a date.</a>

Recommendation(s)	<p>Members are asked to:</p> <ul style="list-style-type: none"> <li><b>NOTE</b> the WHSSC Final Audited Financial Statements for 2019/2020</li> </ul>		
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### Considerations within the report (tick as appropriate)

Strategic Objective(s)	YES	NO	Link to Integrated Commissioning Plan	YES	NO	Health and Care Standards	YES	NO
	✓			✓			✓	
Principles of Prudent Healthcare	YES	NO	Institute for HealthCare Improvement Triple Aim	YES	NO	Quality, Safety & Patient Experience	YES	NO
Resources Implications	YES	NO	Risk and Assurance	YES	NO	Evidence Base	YES	NO
				✓				
Equality and Diversity	YES	NO	Population Health	YES	NO	Legal Implications	YES	NO
							✓	

## **1.0 Situation**

To provide an update to the Audit Committee on the WHSSC Final Audited Financial Statements for the financial year ended 31<sup>st</sup> March 2020.

## **2.0 Background**

As in previous years, the WHSSC end of year accounting process was completed under a very strict and very tight timescale. However, unlike any other year, this was undertaken against the backdrop of COVID 19, lockdown and home working. In recognition of this fact, Welsh Government reviewed the year end timetable and submission dates for NHS Wales, and published a draft accounts deadline date of 24<sup>th</sup> May 2020.

In order to allow Cwm Taf sufficient time to consolidate the WHSSC position into its own accounts, WHSSC must provide the same full set of financial statements, in the same WG format as each of the LHBs, but must complete this work earlier than the rest of Wales. This obviously produces its own unique challenges for the Financial Accounting team at WHSSC. This year WHSSC presented the draft accounts on the 7<sup>th</sup> May 2020.

There were no end of year disputes with any NHS Wales organisation. End of year debtor and creditor, income and expenditure balances were agreed with 7 LHBs and 3 NHS Trusts.

## **3.0 Key Themes**

In order to appropriately brief Audit Committee members, each of the key financial statements and supporting notes will be discussed in the order that they present in the WG format. This paper is intended to direct members to the key issues of note and to highlight areas of significant estimate.

### **Statement of Comprehensive Net Expenditure ( Page 2 )**

As in previous years this indicates that at 31<sup>st</sup> March 2020, WHSSC broke even as required under the terms of the risk sharing agreement. This means there was neither a surplus nor a deficit and that all LHBs agreed to their share of the WHSSC out turn position.

Overall Expenditure on Healthcare has increased by 7.7% on the 2018/19 position. This increase, which amounts to £56m is mostly attributable to the additional funding secured through the 2019/20 annual plan, which amounted to £42.0m, topped up with a further £17.3m of specifically directed WG allocations and a further £3.3m reduction on the end of year risk sharing position.

Unlike LHBs, there is no requirement to disclose achievement of operational balance. This is because, unlike LHBs, WHSSC does not receive a resource allocation directly from WG. All WHSSC funding, including the risk sharing income, is classed as Miscellaneous Income under the WG rules and is declared on Page 27, Note 4.0

Key adjustments to funding in 2019/20 were as follows:

	£m's
Annual Plan and provider inflation funding	42.034
Recurring HRG 4+ settlement allocation	11.519
Major Trauma Centre and Network	2.377
WG allocations specific to WAST	0.983
Other WG allocations	2.797
Transfer of services – non specialist Manchester	-0.488
Transfer of Services Paediatric Endocrinology	0.170
Movement on Final Risk Sharing Outcome	-3.340
Other funding movements	0.515

## Statement of Financial Position or Balance Sheet ( Page 4 )

It is usual among commissioning organisations to have a negative balance sheet total. This was the case for many of the original 22 individual Local Health Boards. Such organisations are unlikely to have substantial fixed assets to fall back on and, as they are not income generating, they do not build up large debtor balances with which to augment cash flow, but they do incur large creditor balances as a result of outstanding end of year provision for services provided but not paid for.

This negative balance also represents the underlying deficit inherited from the predecessor organisation, and will continue indefinitely because of the risk sharing requirement to break even every year.

## Statement of Changes in Taxpayers Equity ( Page 5 )

This can be demonstrated in the Statement of Changes in Taxpayers Equity which for WHSSC / EASC does not change from year to year.

Members are asked to note that, regarding the comparative 2018-19 section on Page 6, this is the where LHBs were previously required to disclose the financial impact of their implementation of IFRS 9, Financial Instruments. The age and profile of individual outstanding debtors has been assessed and has been considered immaterial in this financial year. Hence no provision for bad debts has been deemed necessary.

## Statement of Cash Flows ( Page 7 )

Additional Notes to the Cash Flow can be found on Page 60, Note 27.

Cash flows relating to operating costs will always equal zero as long as WHSSC is funded through the risk sharing agreement, whereby all funding received will equal all expenditure out, in the absence of any direct allocation.

Current WG rules do not stipulate a maximum cash tolerance level for LHBs. Organisations are, however, required to maintain operational cash balances at a minimum.

Further information regarding end of year cash balances is provided later in this document.

## Notes to the Accounts ( Pages 8 to 22 )

While the bulk of the notes to the accounts are prescriptive and laid down by WG and HM Treasury, there are 2 notable exceptions that are specific only to WHSSC.

Committee members are asked to direct attention to Note 1.3 Income and Funding, which describes the nature of the WHSSC Risk Sharing Agreement which provides WHSSC with substantially all of its funding. This note also provides an assessment of IFRS 15, Revenue from Contracts with Customers. As the WHSSC/ EASC risk share funding is unique within NHS Wales, this interpretation is very different to that used by LHBs and has been specifically agreed with both WG and with the WAO technical team.

Note 1.23 Critical Accounting Judgements describes the key areas of estimation uncertainty within the WHSSC Statements.

Moving on to the year to year movements within the key supporting financial schedules.

## Note 3.2 Expenditure on Healthcare – Other Providers ( Page 25 )

Taking each main heading in turn the main movement are described in the following tables

<b>NHS Wales Health Boards 7.13% increase</b>	
Annual Plan Investment	£15.40m
Additional investment to LTA Baselines	£5.01m
Activity Payments to LTAs	£4.33m
Transfer of Services	-£5.01m
Additional Investment – IFPR - Ivacaftor	£3.54m
Additional Investment – IPFR - ERT	£0.93m
Approved New Developments	£1.82m
Other Funded Adjustments	£1.61m

<b>NHS Wales Trusts 9.00% increase</b>	
Additional Investment - Cancer Drugs Melanoma	£5.77m
Additional Investment – WAST Annual Plan	£10.50m
Additional Investment – WAST WG directed	£0.49m
Additional Investment – PHW Major Trauma	£0.20m

<b>Non Welsh Bodies 7.89% increase</b>	
Approved new developments - ATMP	£3.10m
Approved new developments – Asfotase Alpha	£1.10m
Activity Payments to LTA's - Alder Hey	£1.40m
Activity Payments to LTA's - Walton	£1.00m
Activity Payments to LTA's - Imperial	£0.76m
Additional mental health bed days all providers	£1.00m
Other expenditure movements ( IPFR and IVF )	£2.05m

<b>Voluntary Organisations 12.25% increase</b>	
Increase in CAMHS placements plus price increases – St Andrews	£0.31m
Other Expenditure Movements	£0.13m

<b>Private Sector 4.45% increase</b>	
IPFR - Eculizumab	£0.25m
IPFR – Home Parenteral Nutrition	£0.67m
Increase in MH Medium secure bed days ( Aspen Healthcare )	£0.37m
Increase in referrals to Cardiff University PET scanner	£0.18m
Decrease in referrals to Florida Proton Institute	-£0.50m
Other Expenditure Movements	-£0.09m

### **Note 3.3 Expenditure on Hospital & Community Services ( Page 26 )**

Members are asked to note the following exceptional expenditure items which occurred during 2018/19 and which did not re-occur in 2019/20

Previously, 2018/19 saw a considerable and unusual spend on clinical supplies and services. This was related to a WG funded scheme undertaken through EASC to reduce emergency admissions into hospital from care homes. The scheme made a one off provision through the WG winter pressures fund to provide hoisting equipment to care homes. While there was some residual expenditure on this scheme in 2019-20, this part of the work stream has completed.

Elsewhere in this note the other material increases to discuss are as follows:

Of most note is the £0.769m increase in staffing establishment. While there have been further appointments to the EASC staffing establishment as detailed in notes 9.1 and 33, both committees have been required to account for the additional 6.3% central uplift in employers pension costs. The cost impact of this in 2019-20 was £0.209m and has been centrally funded by Welsh Government. Further information on the accounting treatment of this is detailed in Note 34.

Regarding the increase in premises costs, WHSSC experienced some significant costs during 2019-20 relating to the office move from Caerphilly in August 2019, the subsequent building flood in February 2020 and the urgent and immediate vacation of the office in March 2020 as a result of the COVID 19 lockdown. A brief summary of the costs of these costs is below

	£m's
Additional rent and rates costs	£0.08m
Additional electrical and network costs	£0.04m
Additional building maintenance and insurance costs	£0.02m
Additional IT equipment	£0.02m
Other unrelated premises costs	£0.01m

Additional spend on consultancy services is in relation to benchmarking activities undertaken by EASC.

#### **Note 4.0 Miscellaneous Income ( Page 27 )**

As stated earlier, key adjustments to funding in 2019/20 were as follows:

	£m's
Annual Plan and provider inflation funding	42.034
Recurring HRG 4+ settlement allocation	11.519
Major Trauma Centre and Network	2.377
WG allocations specific to WAST	0.983
Other WG allocations	2.797
Transfer of services – non specialist Manchester	-0.488
Transfer of Services Paediatric Endocrinology	0.170
Movement on Final Risk Sharing Outcome	-3.340
Other funding movements	0.515

Members are directed to Note 30 Related Parties on Page 62, which provides further analysis of Risk Sharing contributions by LHB.

Other movements in income relate to £0.145m from Welsh Government transformational fund awarded to the Wales Renal Clinical Network and £0.245k relating to a UK wide medicines management price rebate from Alexion pharmaceuticals, for the use of the drug Asfotase Alpha at Birmingham Children's Hospital.

#### **Notes 9.1, 9.2 Staff Costs and Average Staff Numbers ( Page 30 )**

Expenditure on the staffing resource required to support the Joint Committees has increased by 14.81% on the 2018/19 position.

As mentioned earlier, the main expenditure movements relating to staff costs are regarding firstly the additional 6.3% central uplift in employer's pension



costs of £0.209m and 11 additional funded posts within EASC costing an additional £0.749m as per note 33 on page 65.

### **Note 10.1 Public Sector Payment Policy ( Page 35 )**

The WG requires that Health Boards pay all their trade creditors in accordance with the CBI prompt payment code and Government Accounting rules. Welsh Government has set a target for every Health Board to pay 95% of the number of non NHS creditors within 30 days of receipt of a valid invoice at the correct site.

In 2019-20 WHSSC achieved this target for each of the required 4 metrics and achieved overall totals of 97.5% by number of invoices paid and 99.4% by value of invoices.

Members are asked to note that this achievement is against a backdrop of considerable disruption during the office move in August 2019, resulting in several weeks with no systems access and further disruption during February 2020 as a result of the office flooding.

### **Note 15 Trade and Other Receivables ( Page 44 )**

<b>NHS Wales Health Boards 7.71% decrease</b>	
Risk sharing movement from over to under performance	-£2.52m
Cash previously outstanding for late WG allocation for HRG4+ 18-19 agreement	-£5.23m
Cash outstanding for late Welsh Government allocations.	£0.32m
Increased provider under performance BCU, SBU and Cwm Taf	£0.67m
Movement in outstanding debts	-£0.09m

The most notable movement in receivables has resulted from the year to year movement in the WHSSC risk sharing position which moved from a risk sharing debtor of £10.517m in 2018-19 to a risk sharing creditor in 2019-20.

The ongoing HRG4+ issue with NHS England was closed for 2018-19 with a cash settlement for NHS Wales provided by Welsh Government. From a cash and debtor perspective the allocation that backed this deal came through too late for the cash to be transferred, resulting in the cash being received in 2019-20.

2019-20 saw a significant increase in the value of the debtor with NHS Wales Trusts. This is solely in relation to the agreed end of year under performance by WAST on their provider LTA with EASC. Similarly the amount of £48k for other debtors relates to activity underperformance at the Cardiff University PET scanning centre ( PETIC ).

Regarding the debtor with Welsh Government, this relates to an outstanding invoice raised against the transformational fund which was awarded to the Wales Renal Clinical Network.

Regarding other prepayments, this can be broken down between a prepayment of £11k for the rates invoices paid to Rhondda Cynon Taf Council on the new premises at Nantgarw and £9k relating to repayments on the lease payments for the salary sacrifice lease cars provided to EASC staff.

## Note 18 Trade and Other Payables ( Page 47 )

<b>NHS Wales Health Boards 32.64% increase</b>	
Increase in outstanding IPFR non contract invoices C&V high cost drugs	£0.78m
Outstanding risk share under performance	£2.53m
LTA performance creditors	-£1.15m
Allocations to be returned to WG on WAST / EASC schemes	£0.27m
Funding to be given out for EASC Healthier Wales schemes	£0.33m
Other creditor movements	£0.21m

<b>NHS Wales Trusts 50.63% decrease</b>	
Provider Over Performance at Velindre	-£0.68m
Funding to be given out to PHW for major trauma	£0.20m
Other creditor movements	£0.04m

<b>Non Welsh Bodies 7.09% decrease</b>	
IPFR non contract creditors – North Bristol Trust non contract invoices outstanding	£0.90m
IPFR non contract creditors – Clatterbridge Cancer Centre – Ocular Proton Beam	£0.40m
LTA performance creditors paid in year - 2018-19 HRG4+ settlements ( Bristol, Birmingham )	-£2.51m
LTA performance creditors - ATMP	£0.80m
Other creditor movements	-£0.88m

<b>Non NHS Providers ( creditors &amp; accruals ) *</b>	
Home Parenteral Nutrition – Calea UK	£0.90m
Reduction in referrals to overseas proton therapy ( Florida, Essen )	-£0.34m
Other creditor movements	£0.04m

- To note that non NHS creditors and accruals have been analysed as a total to remove the impact of timing differences on receipt of invoices.

## Note 17 Cash Balances ( Page 46 )

Please refer to earlier commentary regarding the Statement of Cash Flow and associated notes.



Under recent changes to Welsh Government G rules there is no longer a maximum cash tolerance level for LHBs. Organisations are, however, required to maintain operational cash balances at a minimum.

As reported to committee in 2018-19, WHSSC was holding considerable creditors related to NHS England organisations. It was noted that the impact of HRG4+ on the WHSSC creditor balances as a result of LTA contracts that were not paid in that year was circa £5m. This resulted in WHSSC carrying significantly higher cash balances at 2018-19 year end than ever before.

The cash balance held at 31<sup>st</sup> March 2020 is now £8.6m and has returned to expected end of year levels.

### **Note 29 Events after the Reporting Period ( Page 61 )**

Members are asked to note that WHSSC has not made specific reference to any Post Balance Sheet Events related to the outbreak of COVID 19. As WHSSC is not a provider of healthcare, unlike the LHBs, no costs were incurred by WHSSC during February or March 2020 in preparation for the pandemic. While WHSSC did incur additional COVID 19 commissioning costs in early 2020-2021 financial year, all of these transactions clearly fell into that financial year and as such will be a reporting issue for the 2020-2021 accounts and audit.

### **Note 31 Related Party Transactions ( Page 62 )**

After considerable discussion with the Wales Audit Office, in the years since the inception of WHSSC in 2010, this note is now in a format that is deemed acceptable to all.

In the context of the Joint Committee, related parties are considered to be anyone who can influence the financial or planning agenda of WHSSC to the benefit of another related party or organisation. In this case this would result in a Joint Committee member, through their commissioning role, being able to influence the provider LTA for an organisation with which they have a related role, be that a contract of employment or a Non Executive position.

### **Note 33 Operating Segments ( Page 65 )**

This note provides further separate analysis of the activities of each committee.

Items to note which are specific to the EASC committee are

- New targeted Welsh Government income allocations for spend to save initiatives and WAST targeted unscheduled care programmes which can also be evidenced by expenditure increases for NHS Wales Trusts.

- The impact of the Welsh Government funded Healthier Wales initiatives with Local Health Boards and the expansion plan for the Emergency Medical Retrieval Service can be evidenced in the increase in expenditure with Local Health Boards
- As noted previously, the increase in staff expenditure has resulted from 11 additional funded posts costing an additional £0.749m.
- The increase in consultancy spend was as a result of benchmarking activities undertaken with NHS North of England. This has also resulted in a £25k outstanding creditor disclosed as Other NHS.
- The increase in establishment costs is directly as a result of the increased staff numbers and covers such items as travel and subsistence and staff training.
- Late allocations issued by WG in 18-19 caused a large outstanding debtor with Welsh Health boards. These outstanding balances have now cleared.
- Provider underperformance by WAST has increased the EASC NHS Wales Trusts debtor.
- Creditors with NHS Wales LHBs has increased as a result of funding to be passed over for Healthier Wales initiatives.
- The reduction in non NHS accruals was as a result of invoices outstanding from a supplier of lifting devices, which were unpaid at 31<sup>st</sup> March 2019. On advice from NHS Wales Shared Services Procurement the associated spend was disclosed in 2018-19 as Clinical Supplies and Services. While there was some ongoing residual spend relation to this initiative in 2019-20, it was at a much lower level.

## 4.0 Recommendations

Members of are asked to:-

- **ENDORSE** the final audited financial statements for the financial year ended 31<sup>st</sup> March 2020.
- **RECOMMEND** their inclusion and publication unchanged in the consolidated Cwm Taf Statutory Financial Statements.

Link to Healthcare Objectives	
Strategic Objective(s)	Governance and Assurance Choose an item. Choose an item.
Link to Integrated Commissioning Plan	<b>None</b>
Health and Care Standards	Governance, Leadership and Accountability Effective Care Choose an item.

Principles of Prudent Healthcare	Public & professionals are equal partners through co-production Choose an item. Choose an item.	
Institute for HealthCare Improvement Triple Aim	Reducing the per capita cost of health care Improving Patient Experience (including quality and Satisfaction) Choose an item.	
Organisational Implications		
Quality, Safety & Patient Experience	No specific impact	
Resources Implications	The financial statements highlight the resources received by the committees and the use of those resources for the financial year 2019-20 in accordance with WG requirements.	
Risk and Assurance	This is a key element of the overall governance and assurance process for all financial matters.	
Evidence Base	WG Manual for Accounts 2019-20 HM Treasury Financial Reporting Manual UK Generally Accepted Accounting Principles UK Financial Reporting Standards International Financial Reporting Standards	
Equality and Diversity	No Specific Impact	
Population Health	No Specific Impact	
Legal Implications	Legal requirement to produce a set of financial statements for each financial year, to be consolidated by Cwm Taf into their published Statutory Annual Accounts.	
Report History:		
Presented at:	Date	Brief Summary of Outcome
Choose an item.		
Choose an item.		