



## 1.0 Situation

To provide an update to the Audit & Risk Committee on the Welsh Health Specialised Services Committee (WHSSC) Final Audited Financial Statements for the financial year ended 31<sup>st</sup> March 2021.

## 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 fact, the WHSSC response to the pandemic is reflected in many of the key financial movements, changes and disclosures within the 2020-2021 financial statements.

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 Welsh Government (WG) format as each of the Local Health Boards (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 23<sup>rd</sup> April 2021.

As noted at committee in previous years, the format and pages within the accounts format is set by Welsh Government and the settings within the document are protected to allow Welsh Government to easily consolidate together the whole of NHS Wales. Members are asked to note that there are 3 blank pages within the accounting policies and notes pages that we are unable to delete.

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 & Risk 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 2021, 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 has increased by 12.7% on the 2019-20 position. This increase, which amounts to £101m is attributable to not only the additional funding secured through the 2020-21 annual plan, which amounted to £36.2m, but also in large part as a result of the WHSSC response to the COVID-19 pandemic which amounted to a further £29.2m, further funding streams topped this up with a further £41.4m of specifically directed WG allocations and a further £5.9m 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 30, Note 4.0

Key adjustments to funding in 2020-21 were as follows:

	£m's
Annual Plan and provider inflation funding	36.199
Funding to support pandemic response	29.243
Major Trauma Centre	11.985
Rebate on cystic fibrosis drug prices	19.057
Specific WG allocations for EASC	3.722
Movement on Final Risk Sharing Outcome	-5.885
Other funding movements	6.578

#### **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.

## Statement of Cash Flows (Page 7)

Additional Notes to the Cash Flow can be found on Page 64, 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 24)

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 28)

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

<b>NHS Wales Health Boards 9.25% increase</b>	
Annual Plan Investment	£22.4m
Additional Investment – cystic fibrosis drugs	£12.0m
Approved New Developments Cardiff & Vale	£6.0m
Activity adjustments to LTA's – Cardiff & Vale	-£2.0m

<b>NHS Wales Trusts 6.87% increase</b>	
Additional Investment – WAST Annual Plan	£7.4m

Additional Investment – WAST WG directed	£3.0m
Additional Investment – WAST COVID response	£2.0m
Additional Investment – Velindre / Welsh Blood	£1.7m

<b>Non Welsh Bodies 11.98% increase</b>	
Approved new developments – ATMP	£2.3m
Approved new developments – Thrombectomy	£0.9m
Additional IPFR requests Paediatric Orthopaedic	£1.2m
Additional IPFR requests Liverpool Heart & Chest	£3.8m
Additional IPFR requests Alder Hey Cardiac	£1.5m
Additional bed days Alder Hey CAMHs	£1.2m
Movements on prior year provisions	£5.4m
Other expenditure movements	£0.8m

<b>Voluntary Organisations 8.45% increase</b>	
Increase in CAMHS placements plus price increases – St Andrews	£0.3mm

<b>Private Sector 144.01% increase</b>	
COVID - secure independent sector capacity	£23.5m
COVID - secure independent MH surge beds	£5.8m
Other Expenditure Movements	£0.5m

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

Members are asked to note the following exceptional expenditure items which occurred during 2019-20 and which did not re-occur in 2020-21

Previously, 2019-20 saw an unusually high spend on clinical supplies and services. This was related to a WG funded scheme, undertaken through EASC, to create an emergency department quality framework. This scheme made a one off provision to provide additional equipment to the Wales Ambulance Services NHS Trust. There was no associated residual expenditure in 2020-21 and 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 £0.768m increase in staffing establishment. This includes the creation of the new Vulnerable Groups portfolio within WHSSC, the impact of which in 2020-21 was £0.135m.

The full year effect of new posts created in 2019-20 was, WHSSC £0.110m and EASC £0.442m. The whole time equivalent numbers of appointments to both the WHSSC and EASC staffing establishments are detailed in note 9.2.

Both committees have been required to account for the additional COVID bonus payment to NHS staff. The cost impact of this in 2020-21 was £0.081m. This has been centrally funded by Welsh Government.

The impact of the COVID 19 pandemic is apparent in the reduction of establishment expenses, wholly linked to the reduced need to pay staff travel expenses while staff have been working from home during the year.

Additional spend on consultancy services is in relation to financial management and data validation support required to secure the additional independent sector capacity during the height of the pandemic first and second waves.

#### **Note 4.0 Miscellaneous Income (Page 30)**

As stated earlier, key adjustments to funding in 2020/21 were as follows:

	£m's
Annual Plan and provider inflation funding	36.199
Funding to support pandemic response	29.243
Major Trauma Centre	11.985
Rebate on cystic fibrosis drug prices	19.057
Specific WG allocations for EASC	3.722
Movement of Final Risk Sharing Outcome	-5.885
Other income movements	6.578

Members are directed to Note 30 Related Parties on Page 66, which provides further analysis of Risk Sharing contributions by LHB.

Other movements in income include £3.595m WG funding to support non pay price inflation suffered by NHS Wales providers and £1.108m for similar inflationary pressures with NHS England provider contracts.

#### **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 12.88% on the 2019-20 position.

As mentioned earlier, the main expenditure movements relating to staff costs includes the creation of the new Vulnerable Groups portfolio within WHSSC, and the full year effect of new posts created in 2019-20. The whole time equivalent numbers of appointments to both the WHSSC and EASC staffing establishments are detailed in note 9.2.

#### **Note 10.1 Public Sector Payment Policy (Pages 27 & 38)**

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 2020-21 WHSSC achieved this target for each of the required 4 metrics and achieved overall totals of 99.1% by number of invoices paid and 100% by value of invoices.

The underlying calculations for these statistics follow the agreed all Wales methodology, and are based on payment data supplied and validated centrally by NHS Wales Shared Services.

Members are asked to note that this achievement has been reached whilst converting all in house payment systems and procedures to be fully electronic as a result of moving the team to home working.

From this we have identified points of good practice that we intend to continue using once the pandemic has resolved.

### **Note 15 Trade and Other Receivables (Page 48)**

<b>NHS Wales Health Boards 256% increase</b>	
Cash outstanding for late Welsh Government allocation regarding cystic fibrosis drug rebate	£8.0m
Other outstanding allocation adjustments relating to Major Trauma Centre.	-£0.6m
Increased provider under performance C&V	£2.2m
Movement in outstanding debts	-£0.2m

2020-21 saw a significant movement in receivables resulting from the reduction in elective activity undertaken by providers during the COVID pandemic.

While most provider contracts were moved to a position of making block cash payments in order to protect underlying service funding, reductions in associated pass through costs and drugs still needed to be accounted for.

This resulted in a large end of year debtor with Velindre Trust for associated cancer drugs and other pass through costs, evidenced in the movement on the Welsh NHS Trusts category.

Similarly the opposite effect can be seen in the end of year outstanding balance with non Welsh trusts. The official NHS England policy of block contract agreements has meant that there were no significant under performance balances to be clawed back from providers. In other years we would have expected to see under performances reported in providers such as Liverpool Heart and Chest NHS Foundation Trust or The Royal Brompton and Harefield Hospitals NHS Trust, to name 2 providers that held significant balances at the end of 2019-20, that didn't follow into 2020-21.

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.

Movements on other debtors and prepayments relate to an activity under performance at the Cardiff PET scanning centre and prepayments on lease cars respectively.

## Note 18 Trade and Other Payables (Page 51)

<b>NHS Wales Health Boards 24.88% increase</b>	
Movement on risk share under performance - overall due to reduction in elective activity	£4.2m
LTA performance creditors – overall due to block activity agreements	-£0.7m
Other creditor movements	-£0.5m

<b>NHS Wales Trusts 246% increase</b>	
Additional EASC funding for WAST capacity	£1.4m
Other creditor movements	-£0.4m

<b>Non Welsh Bodies 29.42% increase</b>	
IPFR non contract creditors – University Hospitals Bristol – Paediatric Bone Marrow Transplants	£0.8m
IPFR non contract creditors – Newcastle – Paediatric Bone Marrow Transplants	£0.6m
IPFR non contract creditors – NHS England – Manchester Proton Beam Therapy	£0.6m
IPFR non contract creditors – Liverpool Heart & Chest - Cystic Fibrosis Drugs	£1.1m
IPFR non contract creditors – Royal National Orthopaedic – Paediatric Orthopaedic	£0.5m
IPFR non contract creditors - non contract provision	£1.0m
Other creditor movements	£0.4m

<b>Non NHS Providers ( creditors &amp; accruals ) *</b>	
Home Parenteral Nutrition – Calea UK	£2.2m
COVID independent sector providers	£1.7m
Other creditor movements	

- 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 50 )

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

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

The cash balance held at 31<sup>st</sup> March 2021 is £18.3m.

As at the end of March 2021 there was £16.5m of unpaid risk sharing under performance due to be returned back to LHBs. In the final months of the

financial year, all LHBs were contacted to determine which wanted to have their risk sharing cash returned in year. At this time LHBs had already submitted their final cash requirement to WG, and most did not need additional cash.

### **Note 20 Provisions ( Page 53 )**

The movement on provision can be summarised as the following:

The existing provision of £95,500 to cover the expected costs of dilapidations repairs at Caerphilly Business Park was cleared with £73,000 paid to the landlord and £23,500 written back unused.

There is an ongoing remaining provision of £45,195 to settle back dated VAT claims with HMRC. This is ongoing.

A new provision has been set up in 2020-21, in relation to the early termination of a procurement contract for dialysis services. This new provision amounts to £314,940 and is in line with a specific contractual penalty clause which has been assessed with reasonable certainty as being likely to be paid at a future date.

### **Note 30 Related Party Transactions ( Page 66 )**

After considerable discussion with the Wales Audit Office, in the years since the inception of WHSSC in 2010, this note has been revised and extended for 2020-21

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.

Further information has been supplied regarding the membership of the Joint Committees including details of the representation and voting rights of the WHSSC officer members in attendance.

### **Note 33 Operating Segments ( Page 69 )**

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

Items to note which are specific to the EASC committee are

- WG provided £3.9m of specific COVID 19 funding which was used to secure additional independent sector MH beds to provide surge capacity

and to provide support for WAST, together with additional funding of £6.3m to support provider inflation and wage awards specific to WAST.

- New targeted Welsh Government income allocations for the development of an emergency department quality framework can also be evidenced by expenditure increases for NHS Wales Trusts.
- Health boards, through the EASC joint committee provided additional planned funding of £1.8m for WAST frontline services and £2.5m to support patient transfers into the new Grange hospital which opened early as part of the NHS Wales COVID response.
- Further funding was made available to support the expansion plan for the Emergency Medical Retrieval Service which can be evidenced in the increase in both expenditure and creditors with Local Health Boards
- As noted previously, the increase in staff expenditure has resulted from 4 additional funded posts, which together with the full year effect of the new posts created in 2019-20 costing an additional £0.442m.
- The £188k spend with Voluntary Organisations is in relation to planned contract provisions to increase usage of third sector patient transport providers.
- As reported above, the pandemic response which saw most staff transferring to remote home working has resulted in a reduction in staff travel expenses reported within establishment expenses.
- A late allocation issued by WG to Cwm Taf Morgannwg UHB in relation to the funding for the emergency department quality framework caused a large outstanding debtor with Welsh Health boards. This also increased the creditor with Welsh Trust by an equal amount.
- There was no provider underperformance with WAST in 2020-21, hence the reduction in debtors with NHS Wales Trust
- The increase in non NHS accruals was as a result of provision for Mental Health acute beds and the associate transport costs.

## 4.0 Recommendations

Members of are asked to:-

- **ENDORSE** the final audited financial statements for the financial year ended 31<sup>st</sup> March 2021.
- **RECOMMEND** their inclusion and publication unchanged in the consolidated Cwm Taf Statutory Financial Statements.

<b>Link to Healthcare Objectives</b>		
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.	
<b>Organisational Implications</b>		
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.	
<b>Report History:</b>		
<b>Presented at:</b>	<b>Date</b>	<b>Brief Summary of Outcome</b>
Choose an item.		
Choose an item.		

