

Report Title	Report on the Audited Financial Statements 2021-22				Agenda Item	3.2
Meeting Title	Audit and Risk Committee				Meeting Date	14/06/2022
FOI Status	Public					
Author	Financial Accountant					
Executive Lead	Director of Finance					
Purpose of the Report	The purpose of this report is to brief the Audit and Risk Committee on the WHSSC Audited Financial Statements for the financial year ended 31 March 2022.					
Specific Action Required	RATIFY <input type="checkbox"/>	APPROVE <input type="checkbox"/>	SUPPORT <input type="checkbox"/>	ASSURE <input checked="" type="checkbox"/>	INFORM <input checked="" type="checkbox"/>	
<p>Recommendation(s):</p> <p>Members are asked to:</p> <ul style="list-style-type: none"> NOTE the WHSSC Audited Financial Statements for 2021/2022 						

AUDITED FINANCIAL STATEMENTS

1.0 SITUATION

To provide an update to the Audit Committee on the WHSSC Audited Financial Statements for the financial year ended 31st March 2022.

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, for a third year this was undertaken against the backdrop of COVID 19 and home working. The WHSSC response to the pandemic, and the recovery there after, continues to be reflected in many of the key financial movements, changes and disclosures within the 2021-2022 financial statements.

In order to allow Cwm Taf Morgannwg UHB 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 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 22nd April 2022.

As noted at committee in previous years, the format and pages within the accounts document 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 AUDIT FINDINGS

Members are asked to note the following findings of Audit Wales during the course of their audit of the financial statements.

i. Note 30 Related Party Transactions (Pages 66a and 66b)

On discussion with Audit Wales, changes have been made to page 66b to include the disclosure of a declared related party relationship with Cardiff University. The disclosure includes details of expenditure and payables

outstanding with Cardiff University during the financial year. Supporting evidence has been made available to Audit Wales to validate this disclosure.

ii. Note 3.4 Losses, Special Payments and Irrecoverable Debts (Pages 29 and 57)

On discussion with Audit Wales and Cwm Taf Morgannwg UHB, it was decided not to amend these notes to remove the £30,000 staff VER settlement ex gratia payment, which was made by CTMUHB while the member of staff was on secondment. It was agreed by all parties that the expenditure should remain with WHSSC and be declared as such.

iii. Notes to the Accounts (Pages 36 to 37)

Welsh Government have now supplied all LHBs and Trusts with the correct HM Treasury approved details regarding the NHS pension scheme. The financial statements have been updated to include this information.

iv. Note 2.3 Duty to prepare a 3 year integrated plan (Page 27)

In agreement with Audit Wales, this disclosure was changed to reflect the narrative contained in the WHSSC Annual Governance Statement.

v. Note 18 Trade and Other Payables (Page 51)

On request from Audit Wales, additional audit evidence was provided to support the final end of year reported position relating to a number of provider contracts with NHS England organisations.

4.0 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 31st March 2022, 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 5.88% on the 2020-21 position. This increase, which amounts to £52.6m, is attributable to not only the additional funding secured through the 2021-22 annual plan, which amounted to £31.1m, but also in large part as a result of the need to implement COVID-19 pandemic recovery plans, which amounted to a further £11.0m. Further funding streams

topped this up with an additional £38.4m of specifically directed allocations and a further £1.0m movement on the end of year risk sharing position. It must be noted that there was a much higher level of COVID-19 response funding in 2020-2021, which reduced the overall year on year movement by £29.2m

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 2021-22 were as follows:

	£m's
Annual Plan and provider inflation funding	31.077
Movement in funding to support pandemic response and recovery	-16.111
Funding for cystic fibrosis drugs	32.609
Advanced Therapy Medicinal Products (ATMP)	2.614
Traumatic Stress Wales and Vulnerable Groups	1.074
Movement on Final Risk Sharing Outcome	0.695
Other funding movements	0.734

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, 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 Welsh Government 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 25)

While the bulk of the notes to the accounts are prescriptive and laid down by Welsh Government 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. This 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 Welsh Government and with the Audit Wales 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

NHS Wales Health Boards 8.08% increase	
Annual Plan Investment	£27.6m
Additional Investment – cystic fibrosis drugs	£11.0m
Activity adjustments to LTA's – Cardiff & Vale	-£2.0m

NHS Wales Trusts 7.0% increase	
Additional Investment – WAST Annual Plan	£4.9m
Additional Investment – WAST Demand & Capacity	£6.0m

Additional Investment – WAST COVID response	£2.5m
Activity adjustments to LTA's – Velindre	£1.9m

Non Welsh Bodies 12.43% increase	
Approved new developments – COVID Recovery	£6.0m
Approved new developments – Thrombectomy	£1.2m
Additional IPFR requests Proton Beam Therapy	£1.0m
Additional IPFR requests Guys & St Thomas ECMO	£3.4m
Additional IPFR requests Cystic Fibrosis Drugs	£3.3m
Movements across all LTA baselines not related to COVID – Inflation uplifts and High cost drugs and devices	£5.7m
Other expenditure movements	-£0.8m

Voluntary Organisations 55.98% decrease	
Reduction in CAMHS placements – St Andrews	-£2.4m

Private Sector 33.86% decrease	
COVID - secure independent sector capacity funding for 2020-2021 only	-£23.2m
Increase in CAMHS placements at higher bed day rates	£1.2m
Transfer of Gender re-assignment surgery from Imperial College to Aspen Healthcare	£0.6m
Increase in block commissioned beds for medium secure and CAMHS (6 additional beds)	£3.5m
Other Expenditure Movements	£0.8m

For 2021-22 there is a new category of spend within the financial statements. This relates to the Special Health Authority Digital Health and Care Wales, previously part of the Velindre NHS Trust. In 2021-22 WHSSC paid £127,951 for access to the NHS Wales Commissioning Intelligence Portal.

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

Members are asked to note the following exceptional expenditure items which occurred during 2020-21 and which did not re-occur in 2021-22.

There was additional spend of £0.780m on consultancy services in 2020-21, relating to financial management and data validation support required to secure the additional independent sector capacity during the pandemic, which did not re-occur in 2021-22.

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

Of most note is the £0.644m increase in staffing establishment. This includes the creation of new posts within both the WHSSC and EASC portfolios, the impact of which in 2021-2022 was £0.248m

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 6.3% pension uplift and the NHS Wales wage award. The impact of these being £0.250m and £0.146m respectively and both were funded by Welsh Government allocations.

The financial impact of the COVID 19 pandemic on running costs is gradually winding back. The reduction in establishment expenses visible between April 2019 and March 2021, which were wholly linked to the reduced need to pay staff travel expenses, is now rising back to normal levels as staff, in particular those working for the MH Quality Assurance Team, are starting to make in person service visits and to attend training courses.

Establishment costs in 2021-2022 also includes £0.116m of costs incurred by the Traumatic Stress Wales team for specific WG funded design costs for communication tools for vulnerable groups across Wales.

Increases in Premises costs include £0.06m incurred by the Wales Renal Clinical network to fund ongoing support costs of the all Wales renal IT system and £0.04m of computer purchases through the National Collaborative Commissioning Unit, which is part of the EASC.

Note 3.4 Losses, Special Payments and Irrecoverable Debts (Pages 29 and 57)

It is very rare for either WHSSC or EASC to have to make any special payments. As the committees are not providers of healthcare, they do not bear any specific clinical governance risk and do not take part in the NHS Wales Risk Pool.

In 2021-22 there have been 3 special payments that required disclosure in the financial statements. These are summarised as

A staff VER settlement ex gratia payment	£0.030m
Settlement of a staff employment dispute	£0.008m
A court ordered payment settling a patient complaint	£0.025m

The court ordered settlement also incurred legal defence costs of £0.043m.

Members are asked to note the earlier comment regarding the agreement with Audit Wales and Cwm Taf Morgannwg not to remove the declaration regarding the ex gratia VER settlement made while the employee was on secondment to Cwm Taf Morgannwg.

Note 4.0 Miscellaneous Income (Page 30)

As stated earlier, key adjustments to funding in 2021/22 were as follows:

	£m's
Annual Plan and provider inflation funding	31.077
Movement in funding to support pandemic response and recovery	-16.111
Funding for cystic fibrosis drugs	32.609
Advanced Therapy Medicinal Products (ATMP)	2.614
Traumatic Stress Wales and Vulnerable Groups	1.074
Movement on Final Risk Sharing Outcome	0.695
Other funding movements	0.734

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

Income from NHS trusts relates to staff recharges to Wales Ambulance Services Trust and Public Health Wales.

Income from Welsh Government relates to funding for the Collaborative Kidney Care Transformational Fund which is managed through the Wales Renal Clinical Network.

Income from Other Activities is related to funding for cystic fibrosis drugs.

Notes 9.1, 9.2 Staff Costs and Average Staff Numbers (Page 33)

Expenditure on the staffing resource required to support the Joint Committees has increased by 9.57% on the 2020-21 position.

As mentioned earlier, the main expenditure movements relating to staff costs includes the creation of new posts within both the WHSSC and EASC portfolios, the impact of which in 2021-2022 was £0.248m

Both committees have been required to account for the additional 6.3% pension uplift and the NHS Wales wage award. The impact of these being £0.250m and £0.146m respectively and both were funded by WG allocations.

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 2021-22 WHSSC achieved this target for each of the required 4 metrics and achieved overall totals of 97.7% by number of invoices paid and 99.5% 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.

Note 15 Trade and Other Receivables (Page 48)

NHS Wales Health Boards 1.2% increase	
Cash transfers outstanding for allocations – Cystic Fibrosis drugs	£3.6m
Reduction in outstanding risk sharing balances	-£1.0m
Reduction in outstanding under performance with Cardiff & Vale	-£3.1m
Other NHS Wales LHB performance movements	£0.3m
Other LHB Debtor Movements	£0.3m

In order to provide an adequate year on year comparison the following issues have not continued into 2021-2022 and therefore need to be noted.

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 block cash payments in order to protect underlying service funding, reductions in associated pass through costs and drugs still need to be accounted for.

This resulted in a large 2020-21 end of year debtor of £2m with Velindre Trust for associated cancer drugs and other pass through costs. This evidenced in the movement on the Welsh NHS Trusts category as the equivalent 2021-22 value is £0.87m.

Offsetting this movement is a 2021-22 LTA under performance debtor of £0.43m with the Wales Ambulance Services NHS Trust

Similarly, the opposite effect can be seen in the end of year outstanding balance with non Welsh trusts. In 2020-21, the official NHS England policy of block contract agreements meant that there were no significant under performance balances to be returned. Changes to the commissioning policies in 2021-22 have introduced some elements of performance into the process, most notably regarding drugs and devices. So while there is a year on year increase of 64% or £0.7m in the end of year debtor with NHS England, this is only a small movement towards what we would normally have expected to see pre-pandemic.

Regarding the debtor with Welsh Government, this relates to an outstanding invoice raised against the Collaborative Kidney Care transformational fund, which is managed by the Wales Renal Clinical Network.

Movements on other debtors and prepayments relate to finalising and closing down the independent sector pandemic response and prepayments on lease cars respectively.

Note 18 Trade and Other Payables (Page 51)

NHS Wales Health Boards 33.94% increase	
Movement on risk share under performance - due to fewer cash transfers in year	£2.0m
C&V IPFR year end drug recharge invoices	£3.4m
Other creditor movements	-£0.3m

NHS Wales Trusts 74.76% increase	
Movement in amounts outstanding through the WAST LTA	£1.1m

Non Welsh Bodies 48.57% increase	
IPFR non contract creditors – Guys & St Thomas – ECMO	£4.0m
LTA contract creditors – COVID Recovery	£2.2m
Approved developments creditors – Advanced Medicinal Therapy Products	£0.7m
Approved developments creditors – Thrombectomy - North Bristol NHS Trust	£0.7m
Approved developments creditors - Genetic Testing – NHS England	£0.7m

LTA contract creditors – Walton Centre for Neurology and Neurosurgery	£0.7m
LTA contract creditors – Royal Free	£0.4m
LTA contract creditors - University Hospitals Birmingham	£0.3m
Other creditor movements	£0.9m

Non NHS Providers (creditors & accruals) *	
Home Parenteral Nutrition invoices outstanding – Calea UK, Baxter Healthcare	£0.3m
Healthcare at Home – Home care drugs	£0.8m
Increase in creditors relating to securing additional MH block commissioned beds and MH surge capacity	£1.2m
Other creditor movements	-£0.2m

- 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 still expected to maintain operational cash balances at a minimum.

The cash balance held at 31st March 2022 is £37.1m.

As at the end of March 2022 there was £9.6m of unpaid risk sharing under performance due to be returned back to LHBs and £1.2m of Wales LTA final settlements outstanding.

In the final months of the financial year, all LHBs were contacted to determine which wanted to have their risk sharing and LTA performance 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)

No changes have been made to the provisions in 2021-22.

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

The provision for the early termination of a procurement contract for dialysis services also remains. This provision, which amounts to £314,940, 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. The underlying procurement contract was still under negotiation at the balance sheet date.

Note 30 Related Party Transactions (Pages 66a and 66b)

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.

An additional disclosure has been agreed with Audit Wales regarding a declared related party relationship with Cardiff University. The disclosure includes details of expenditure and payables outstanding with Cardiff University during the financial year.

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

- Welsh Government provided £3.6m of specific COVID 19 recovery funding, £2.4m of which was used to provide support for WAST, and £1.2m to provide support to the urgent care programme. Welsh Government provided further funding of £3.4m to support provider inflation and wage awards specific to WAST.
- New targeted income allocations of £7m to improve demand and capacity issues at WAST can also be evidenced by expenditure increases for NHS Wales Trusts.
- Further funding was made available to support the expansion plan for the Emergency Medical Retrieval Service which can be evidenced in the increase in expenditure with Local Health Boards

- The increase in staff expenditure has resulted from 5 additional funded posts, which together with the full year effect of posts created in 2020-21 and the impact of the 2021-22 wage award, amounts to an additional £0.420m.
- The 2020-21 spend with Voluntary Organisations was in relation to planned contract provisions to increase usage of third sector patient transport providers. This did not continue into 2021-22.
- As reported above, the pandemic response, which saw most staff transferring to remote home working in 2020-21, is starting to unwind as face to face site visits and training courses have re-commenced. This can be evidence by the increase in establishment expenses.
- As mentioned earlier, the increase in premises costs includes £0.04m on computer hardware and software purchases. The increase in consultancy costs includes £0.130m relating to demand and capacity modelling support from NHS England.
- In 2020-21 there was a late allocation issued by Welsh Government to Cwm Taf Morgannwg UHB in relation to the funding for the emergency department quality framework, which caused a large outstanding debtor with Welsh Health boards and an equal creditor with Welsh Trusts in that year. This situation did not re-occur in 2021-22.
- The debtor with NHS Trusts includes a £0.4m LTA contract performance adjustment for WAST, while the creditor with NHS Trusts includes to £2m of COVID 19 recovery support for WAST.
- As in previous years, non NHS accruals include provisions for Mental Health acute beds and the associated transport costs.

5.0 RECOMMENDATIONS

Members of are asked to:-

- **ENDORSE** the final audited financial statements for the financial year ended 31st March 2022.
- **RECOMMEND** their inclusion and publication unchanged in the consolidated Cwm Taf Statutory Financial Statements.

Governance and Assurance	
Link to Strategic Objectives	
Strategic Objective(s)	Governance and Assurance
Link to Integrated Commissioning Plan	None
Health and Care Standards	Governance, Leadership and Accountability Effective Care
Principles of Prudent Healthcare	Public and professionals are equal partners through co-production
NHS Delivery Framework Quadruple Aim	Reducing the per capita cost of health care Improving Patient Experience (including quality and Satisfaction)
Organisational Implications	
Quality, Safety & Patient Experience	There are no direct impacts arising from this report. Informed decisions are more likely to impact favourably

	on the quality, safety and experience of patients and staff.
Finance/Resource Implications	The financial statements highlight the resources received by the committees and the use of those resources for the financial year 2021-22 in accordance with WG requirements.
Population Health	There are no direct impacts arising from this report.
Legal Implications (including equality & diversity, socio economic duty etc)	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.
Long Term Implications (incl WBFG Act 2015)	This is a key element of the overall governance and assurance process for all financial matters.
Report History (Meeting/Date/ Summary of Outcome)	
Appendices	Appendix 1 – 2021-2022 Audited Financial Statements