Bwrdd Iechyd Prifysgol Cwm Taf Morgannwg University Health Board

AGENDA ITEM
6.2

OTHER
PLANNING, PERFORMANCE & FINANCE COMMITTEE

Balance Sheet forecast for 2020/21 and related issues

Date of meeting	21/12/2020
FOI Status	Open/Public
If closed please indicate reason	Not Applicable - Public Report
Prepared by	Mark Thomas – Deputy Director of Finance
Presented by	Executive Director of Finance & Procurement
Approving Executive Sponsor	Executive Director of Finance & Procurement
Report purpose	FOR DISCUSSION / REVIEW

Engagement (internal/external) undertaken to date (including receipt/consideration at Committee/group)

Committee/Group/Individuals	**Date**	**Outcome**
Audit & Risk Committee	14/12/20	Noted

ACRONYMS	

1. SITUATION/BACKGROUND

An interim report on balance sheet planning for 2020/21 was discussed at the Audit & Risk Committee meeting on 19 October 2020. The key issues are noted below:

- The financial plan for 20/21 includes a £4.3m target for accountancy gains/balance sheet write backs.

- The report identified that £12.5m of old balances are no longer required. This would give an £8.2m larger release from the balance sheet than assumed in the original 2020/21 plan.

- The report also identified a number of other areas of accrual not currently fully accrued which would therefore offset the £12.5m balance sheet release:-
  - Annual leave
  - Enhancements
  - ADHs
  - Overtime

- Further work is needed in these areas which would also need to be factored into our year end forecast and the Q3/Q4 Plan submission to Welsh Government.

The purpose of this report is to provide an update on the balance sheet forecast and related issues for 20/21.

2. SPECIFIC MATTERS FOR CONSIDERATION BY THIS MEETING

2.1 Latest Balance sheet forecast

The latest forecast is set out below, which shows the release assumed in the financial plan, the release assumed in the draft Q3-4 plan, and also the updated release in the latest draft Q3-4 forecast presented to Board on 26 November:

	Financial Plan 20/21	Estimated balance sheet for Q3/4 plan	Estimated Balance sheet impact 20/21
Anticipated in the 2020/21 financial plan	**£m**	**£m**	**£m**
Oracle balances - estimated impact of releasing balances over 18 months	-2.0	-2.4	-2.4
Estimated additional accruals to align accounting periods - Bank , ADHs, etc	4.0	3.8	3.8
Release CHC accruals over 3 years old before the current financial year	-3.0	-3.0	-3.0
Other release of older balances	-3.3	-3.3	-3.3
Sub total	**-4.3**	**-4.9**	**-4.9**
Not anticipated in the 2020/21 financial plan			
Review of former Bridgend balances at 31/3/20 previously reported to Audit Committee		-1.4	-1.4
Review of former CT balances at 31/3/20 previously reported to Audit Committee		-8.8	-8.8
Review of other balances		-0.6	-0.6
Estimated impact of increased provision for annual leave at 31/3/21		5.5	5.5
	-4.3	**-10.1**	**-10.1**
Likely WG funding			**-5.5**
Financial plan		**-4.3**	**-4.3**
Variance to plan		**-5.8**	**-11.3**

The net position previously reported to the Audit Committee has therefore increased from £8.2m to £11.3m.

2.2 The historical context, timeline of events and latest thinking around balance sheet principles

The key aspects of this are as follows:-

- Historically prudent arrangements going back several years around central accruals for oracle (items received not invoiced) and CHC, but going the other way for pay accruals in that pay accruals have not been provided up to the balance sheet date for all elements of variable pay (12 months expenditure has been included in all cases but not up to 31 March in all cases).

- Bridgend coming into CTM from 2019/20 with a high level "apportioned" share of the ABM balance sheet, which was not agreed until fairly well into 19/20. There was then insufficient time to fully review these apportioned balances as at 31/3/20 on a bottom up basis, and we planned to undertake a proper review in 2020/21. Bridgend accrual practice was also different to the former CT in relation to oracle and variable pay accruals – so there was also a need to harmonise on a consistent policy for CTM in 2020/21.

- The financial plan for 2020/21 provided for a release from the balance sheet of £4.3m. This was estimated as the impact of harmonising Bridgend and former CT and releasing older accruals. The harmonisation involved moving to 18 months for Oracle, accruing up to 31 March for all aspects of variable pay and moving to 3 years for CHC accruals (was 4 years within former CT in 2018/19 and 2019/20). The overall estimated net impact was well within the materiality threshold.

- The 2019/20 audit process subsequently identified that some local accruals which had not been transferred to the central balance sheet code (for balances not required) were questionable /not able to be supported. These were then reviewed alongside the Bridgend balances and other aspects such as Oracle accruals in early autumn 2020. Balances were attributed a green/amber/red classification and a report was drawn up to Audit Committee. This proposed that £12.5m be written back, with further work required in other areas, particularly pay accruals, which is was expected to offset this.

- Our balance sheet assumptions for 2020/21 which informed the Q3-4 financial plan were then as follows:-
  - Apply new policy around Oracle (accrue up to 18 months), CHC (accrue up to 3 years), and variable pay accruals up to 31 March 2020.

  - Apply new policy for non NHS accruals and payroll creditors (accrue up to 2 years).

  - Annual leave accrual increase of £5.5m based on an estimated 65% of staff carrying forward 5 days leave (pending more detailed assessment). This was initially assumed to be funded by CTM, but WG has since indicated that this is likely to be funded by WG aligned to a consistent methodology.

- Following a further review of a sample of 15 local accruals identified by Audit Wales, alongside the line of Audit Wales questioning on the liability at 31/3/20, the Health Board considered what is a reasonable period of time to leave accruals for expected payments on the balance sheet if the actual payment has not materialised. We have previously had a methodology for this around CHC accruals, but not for other accruals. Our proposed approach is for a two-year retention period as a default in the absence of specific other factors. This could have some impact on the assessed balance sheet release in the Q3-4 plan, but this impact has not yet been assessed. We understand that the key issue for Audit Wales is the evidence that the original accruals are valid, regardless of their age, and the Health Board is sourcing the relevant information for the Audit Wales sample.

- It is envisaged that balance sheet assumptions will be reviewed again in 2021/22, with potential reductions to maximum periods for accruals and thus the value of accruals.

3. KEY RISKS/MATTERS FOR ESCALATION TO BOARD/COMMITTEE

3.1 Accounting methodologies for 20/21

The key accounting methodologies being proposed for 2020/21 are summarised below:

- Oracle accruals – these are system generated accruals which capture items where goods have been recorded as received but no invoice has subsequently followed. The proposed approach for 20/21 is to move to a policy of releasing any accruals that are more than 18m old at the balance sheet date.

- CHC accruals – these are manual accruals which capture the expected costs of patient placements but no invoice has subsequently followed. The proposed approach is to move to a policy of releasing any accruals that are more than 3 years old at the balance sheet date, with the 3 year period measured from the first balance sheet date after the accrual was made(provided the basis for the original accrual is robust):

First balance sheet date after accrual was made	Age at 31 March 20/21	Treatment
31 March 2016	5 years	Release
31 March 2017	4 years	Release
31 March 2018	3 years	Hold
31 March 2019	2 years	Hold
31 March 2020	1 year	Hold
31 March 2021		Hold

- Other Non NHS accruals – these are manual accruals, which capture the expected costs of goods and services provided by non-NHS suppliers, but no invoice has subsequently followed. The proposed approach is to move to a policy of releasing any accruals that are more than 2 years old at the balance sheet date, with the 2 year period measured from the first balance sheet date after the accrual was made (provided the basis for the original accrual is robust).

- Payroll creditors – these are manual accruals for bank, enhancements, ADH's, WLI's etc. As above, the proposed approach is to move to a policy of releasing any accruals that are more than 2 years old at the balance sheet date (provided the basis for the original accrual is robust).

- Annual leave accruals – Discussions are ongoing to confirm a consistent all Wales approach for 20/21.

It is envisaged that the above balance sheet assumptions for 20/21 will be reviewed again in 21/22, with potential reductions to the maximum periods for accruals and thus the value of accruals.

3.2 Potential Prior Year adjustment (PYA)

The latest Health Board forecast for 20/21 assumes that the estimated balance sheet impact of £11.3m (£15.6m-£4.3m) will all be accounted for in 20/21. The impact of applying a "two year policy" for other accruals could probably result in a slightly lower release from the balance sheet but this has not yet been assessed.

Discussions with Audit Wales have indicated that they are giving consideration to whether any of the £15.6m balance sheet release should be treated as a PYA in 20/21.This would apply if the value of the accrual and creditor balances at 31 March 2020 which could not be evidenced was above the materiality threshold.

We have assessed what the value of a PYA would be if it was applied to all such accruals over two years, and the resulting value is £3.7m. This value assumes there is evidence to support the basis for accruals under 2 years old that were in the balance sheet on 31/3/20.This assessment does not include the impact of accruals that we are not planning to make at 31/3/21 (but did make at 31/3/20) in the three areas where our approach is changing (i.e. CHC accruals over 3 years, Oracle accruals over 18 months, and the impact of pay accruals up to 31 March). As this assessment is well below the materiality threshold, we do not believe that a PYA would be necessary. However, this position is still subject to the work being undertaken by Audit Wales.

The implications of a PYA would depend on its size, and could potentially impact on some or all of the following in 20/21:

- The value of any allocation able to be returned to WG and thus overall WG resource able to be directed at Covid second peak and Winter pressures.

- The real resource able to be spent over Q3-4 within CTM.

The Health Board has been briefed separately in further detail on these potential implications and mitigations for them.

It is important to note that, if the Health Board's existing commitments and spend plans were left unchanged, and so a prior year adjustment led to a larger surplus in 2019/20 and a matching 20/21 deficit, then the implications would be:-

- The value of the PYA would Impact on Welsh Government health and social care department position against the control total for 20/21 (as there is no 3 year duty within Welsh Government)
- Neutral for CTM under 3 year financial duty up to 2021/22, but from 2022/23 the 2020/21 deficit would need to be recovered.
- In light of the above, CTM would seek to achieve breakeven in 2020/21 with the consequences above.
- If a PYA is required, discussions would take place with WG so that the impact of any adjustment could be considered in the context of the consolidated Welsh Government NHS 2019/20 accounts.

An initial meeting was held with Audit Wales on 2 December 2020 to discuss this urgent issue. Further work is now being taken to provide evidence to support the basis for the sample of 15 accruals in order for Audit Wales to determine if a PYA is needed in the 20/21 Accounts.

Notwithstanding that the immediate issue to be addressed is the potential PYA, we will also continue to review the projected balance sheet for 20/21 and will share any important changes with Audit Wales.

3.3 Learning points

The key learning points are as follows:

- **Accounting methodologies for accruals**

Re- defining what is a reasonable period of time to leave accruals for expected payments on the balance sheet if the actual payment has not materialised. We have previously had a methodology for this around CHC accrual but not for other accruals. Our proposed new approach for oracle accruals and other accruals in 20/21 is noted in Section 3.1 above.

Any future changes to the accounting methodologies for accruals will be reported to the Audit and Risk Committee.

- **Payroll creditor calculations**

Historically payroll accruals for ADHs, Overtime, WLI & Enhancement have been estimated by Divisional Support teams based upon local identification of claims. This approach has resulted in balances not being routinely written back and re-provided but simply maintained and adjusted to reflect current requirements.
The Health Board is planning to implement a similar process to that being used to support creditors for Bank staff, travel expenses etc, with the payroll timetable clearly indicating the claim period and payment period for those claims. We will therefore use the April payroll data to calculate the creditor for payments made for the items that have always been calculated but also to include ADH, Overtime, WLI and Enhancements.
We would also use the April payroll data to estimate the accrual for the timing difference between the payroll timetable for April's Pay and the yearend date of the 31st March, using a daily average calculation, this adjustment would be applied to the full element of claims and allowances as this is not currently undertaken,.
In summary, we propose to increase the items included in the M12 payroll creditor adjustment to include the following items which are paid in arrears:

- Waiting List Initiatives
- Overtime
- Extra duty allowances
- Enhancements

Any additional accruals for these items, over and above the calculations based on April and May payments, will be provided by the divisional support teams based on local information.

- **Clearing balances that are no longer needed to the Central Balance sheet code on a timely basis**

All staff will be reminded of the requirement to review their accruals and creditor balances on a regular basis and to transfer any balances that are no longer required to the 'Central' balance sheet code. This requirement will be monitored by the Head of Corporate Finance.

- **Audit recommendations**

The following audit recommendation was made following the audit of the 19/20 accounts and was accepted in full:

Exhibit 1: Matter arising 1

The Health Board has a very high level of old expenditure accruals (liabilities), which it needs to review

Recommendation	Given that we will be reviewing the Health Board's old accruals as at 30 September, we will consider the need to raise any recommendations after that audit work. In the meantime, the Health Board should: • Stop the practice of accounting on a net basis for a movement in an accrual from one year to the next year. In such circumstances, where the Health Board has judged that an accrual's assessed value has changed, it should always reverse out the previous year's accrual in full, and then create a new accrual with the reassessed amount. • Issue revised instructions to all staff as part of the annual accounts process, and in doing so remind them of the importance of obtaining and retaining appropriate supporting evidence.

Accepted in full by management	Yes
Management response	The above recommendations have already been has been shared with the relevant members of the Senior Finance team for implementation within their teams.
Implementation date	31 March 2021

4. IMPACT ASSESSMENT

Quality/Safety/Patient Experience implications	There are no specific quality and safety implications related to the activity outined in this report.
Related Health and Care standard(s)	Governance, Leadership and Accountability
Equality impact assessment completed	Not required
Legal implications / impact	There are no specific legal implications related to the activity outlined in this report.
Resource (Capital/Revenue £/Workforce) implications / Impact	Yes (Include further detail below) The report highlights the impact on the financial position for 20/21.
Link to Main Strategic Objective	To provide strong governance and assurance
Link to Main WBFG Act Objective	Provide high quality care as locally as possible wherever it is safe and sustainable

5. RECOMMENDATION

The Committee is requested to;

- **NOTE** the proposed accounting methodologies for 2020/21 and the planned further review for 2021/22.

- **NOTE** the potential risk of a Prior Year Adjustment in 2020/21 and the associated implications.

- **NOTE** the ongoing review of the projected Balance sheet for 2020/21.

- **NOTE** the learning points in Section 3.3.