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Bwrdd Iechyd Prifysgol
Abertawe Bro Morgannwg
University Health Board



Meeting Date	21st March 2019		Agenda Item	5b
Report Title	Annual Accounts Update			
Report Author	Andrew Biston, Head of Accounting & Governance			
Report Sponsor	Lynne Hamilton, Director of Finance			
Presented by	Lynne Hamilton, Director of Finance			
Freedom of Information	Closed			
Purpose of the Report	The purpose of this paper is to update the Audit Committee on the plans in place to close the Annual Accounts for the year ending 31st March 2019.			
Key Issues	<ul style="list-style-type: none"> a) The timetable, key dates and milestones for the submission of the Annual Accounts for 2018/19; b) the arrangements in place for the review and adoption of the Annual Accounts; c) the approach for accounting for capital issues, including the need for off-site storage of capital equipment; d) the approach for accounting for primary care accruals; e) the approach for accounting for retrospective continuing health care claims; f) the anticipated movements in other key provisions; g) the review of leases to ensure correct accounting treatment. 			
Specific Action Required <i>(please ✓ one only)</i>	Information	Discussion	Assurance	Approval
	✓			
Recommendations	<p>Members are asked to:</p> <ul style="list-style-type: none"> • Note The key issues identified above 			

1. INTRODUCTION

- 1.1. The purpose of this paper is to update the Audit Committee on the plans in place to close the Annual Accounts for the year ending 31st March 2019.

2. BACKGROUND

- 2.1. A very detailed and comprehensive closedown timetable with supporting guidance notes has been developed and made available to all staff within the Directorate through the Finance Portal Website, and e-mailed to NHS Wales Shared Services Partnership (NWSSP) and WAO colleagues.
- 2.2. Once the final version of the Manual for Accounts is received, which is expected this month, this will also be placed on the Finance Portal Website for easy access.
- 2.3. The key dates and milestones from the main Annual Accounts Closure Timetable are summarised in the table below:

Annual Accounts Task	Deadline
Issue NHS Debtor Balance Statements to other NHS Wales bodies	3rd April 2019
Sign off date for Agreement of NHS Wales Debtors & Creditors	8th April 2019
Issue Income transactions to NHS Wales bodies	9th April 2019
Sign off date for agreement of NHS Wales Income & Expenditure	16th April 2019
Finalise Health Board Outturn Position	10th April 2019
Close Health Board old year financial ledger	10th April 2019
Submit LMS to Welsh Government	17th April 2019
Preparation of draft Accounts for Senior Finance Team review	18th April 2019
Submission of draft Accounts	26th April 2019 (Noon)
Submission of Audited Accounts	31st May 2019 (Noon)

3. GOVERNANCE AND RISK ISSUES

- 3.1. The Audit Committee meeting already scheduled for Thursday, 16th May 2019, will receive the draft Annual Accounts, Annual Governance Statement and the Remuneration Report.

- 3.2. A special meeting of the Audit Committee has been arranged for Wednesday, 29th May 2019, to review the full audited statements and reports, with a Board meeting afterwards to formally adopt them on the same day. The deadline for submission is noon on Friday, 31st May 2019.
- 3.3. In closing the accounts the following key issues are drawn to the attention of the Committee and Wales Audit Office with regards to the technical accounting treatment that will be employed by ABMU University Health Board (ABMU) in closing the draft annual accounts.

A. CAPITAL ISSUES

i. De-recognition

The approach developed by the All Wales Technical Accounting Group (TAG) Capital Sub Group for use since 2009/10, will again be used by ABMU in 2018/19. This will require revaluations from the District Valuer where schemes completing in-year have works and fees costs exceeding £0.5m. There are 3 schemes that we anticipate will require revaluation values this year.

ii. Storage of Equipment

The Health Board plans to have 2 items of equipment held in off-site storage on the 31st March 2019. There are also a number of schemes due to complete in March 2019 which involve large equipment items. If there is any delay in the works element of these schemes there may be a need to hold equipment off-site for a short period of time. This equipment will be capitalised in the 2018/19 accounts.

B. PRIMARY CARE ACCRUALS

The format of the working papers for Primary Care Accruals will be the same as that used since 2010/11, and will provide clear linkages and audit trails from the Annual Accounts back to the General Ledger.

The Health Board has reviewed the accounting methodologies used across the primary care accrual areas last year. This review has taken into consideration actual outturn values against accrual values and whether there have been any amendments to primary care contracts in year to determine whether any changes are required for 2018/19. The outcome of this work has concluded the following: -

i. GMS - PADMs (Personally Administered Drugs & Appliances)

The methodology used for PADMS was amended in 2013/14 to exclude high expenditure trends in the autumn months, which is due to the Vaccination & Immunisation Programmes, particularly influenza. For the past three years, the Health Board excluded three months when calculating the average cost per prescribing day to establish accrual values for the months of February and March. The variances for the past three financial years are as follows:

Year	Accrual Value	Actual Expenditure	Variances	
	£	£	£	%
2015/16	550,083	509,970	-40,113	7%
2016/17	550,243	524,617	-25,626	5%
2017/18	524,616	460,670	-63,946	12%

There is no change proposed for 2018/19

ii. GMS Enhanced Services

The variances for the past three financial years are as follows:

Year	Accrual Value	Actual Expenditure	Variances	
	£	£	£	%
2015/16	396,735	492,605	95,870	24%
2016/17	349,575	408,718	59,143	17%
2017/18	1,384,859	798,301	586,558	42%

Whilst these percentages appear to be high for 2016/17 and 2017/18 this should be set in the context of the total cost of GMS Enhanced Services which amounted to £6m in 2016/17. The high variance between the accrual and actual expenditure in 2017/18 was due to Welsh Government introducing a number of direct enhanced services in 2017/18 some from 1st April 2017 and some from 1st October 2017. This made an assessment of the uptake of these direct enhanced services difficult to quantify resulting in an over accrual using the methodologies for accrual agreed in 2017/18.

These new direct enhanced services have seen uptake levels continue to increase through 2018/19. Therefore based on the experience of 2017/18 and the levels of uptake to date in 2018/19, an alternative methodology for accrual is set out below.

For the Diabetes direct enhanced service, the proposed approach is to calculate the total liability owing to GP practices as at 31st March 2019 and deduct actual payments made. The total value owed to GP practices is derived from the number of patients with type 2 diabetes, multiplied by the item of service fee.

For the Anticoagulation direct enhanced service the proposed approach is to recognise the liability owing to GP practices who have delivered services in line with the service specification but who have not submitted claims by 31st March 2019. As the claims process is quarterly the maximum liability owed to GP practices can be calculated and adjusted to reflect claims made to date.

In line with previous years, it is proposed that other service lines will be reviewed and accrual values based on the prior year's approach and/or expenditure trends within each local area. However, a Senior Finance Manager review will be completed prior to finalisation of the accruals to ensure that no scheme is overlooked. Apart from the two new enhanced services detailed above, no other changes are proposed for 2018/19.

iii. GMS QOF (Quality and Outcomes Framework)

Under the QOF scheme, GP Practices achieve a certain level of points and these are multiplied by £x value per point to establish the payments due. Since the final achievement value is not known until June, this information is not available in time for the Annual Accounts submission and so estimates are required.

The variances for the past three financial years are as follows:

Year	Accrual Value	Actual Expenditure	Variances	
	£	£	£	%
2015/16	2,210,384	2,226,320	15,935	1%
2016/17	2,327,541	2,183,985	-143,556	6%
2017/18	2,299,077	2,184,547	-114,530	5%

Points to note for this year's formula:

- There has been no change to the maximum number of points at 567 for 2018/19.
- The relaxation of QOF applied in the previous two years has ceased for 2018/19. Therefore no adjustment for relaxation is required within the accrual.
- Inflation of 3.05% has been calculated by Welsh Government for QOF for 2018/19 and therefore, this will be added to the £ per point paid to all practices.
- To capture all of the points above, the formula used last year, and the one proposed for 2018/19 are set out below:

Accrual Formula for 2017/18

2016/17 points achieved (capped at a maximum of 567 points) plus 1% (to recognise the potential impact of the relaxation of QOF)	X	2016/17 £ per point Uplifted by 2.43%
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Accrual Formula for 2018/19

2017/18 points achieved (capped at a maximum of 567 points)	X	2017/18 £ per point Uplifted by 3.05%
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iv. Pharmacy Contract

For the past 3 years, the run rate for November to January was used to accrue for February and March due to several changes to the fees and allowances within the pharmacy contract from April to October.

The variances for the past three financial years are as follows:

Year	Accrual Value	Actual Expenditure	Variances	
	£	£	£	%
2015/16	4,495,846	4,645,399	149,553	3%
2016/17	4,638,140	4,689,285	51,145	1%
2017/18	4,637,591	4,739,377	101,786	2%

Whilst no changes are proposed for the approach to calculating the accruals for 2018/19, the contract price per item is likely to be increased before 31st March 2019 to reflect changes to the pharmacy contract. There will therefore, be a need to increase the resulting accruals to reflect this. Work is currently being undertaken to assess the potential impact. The methodology for the remaining components of the pharmacy contract remain unchanged.

v. Primary Care Prescribing

Since 2014/15, a methodology which combines both prescribing and calendar days within the month with a 50/50 weighting to both has been set to accrue for February and March.

The variances for the past three financial years are as follows:

Year	Accrual Value	Actual Expenditure	Variances	
	£	£	£	%
2015/16	15,188,176	15,395,554	+207,378	1%
2016/17	15,022,506	15,372,822	+350,316	2%
2017/18	15,815,455	14,796,602	-1,018,853	-7%

For the 3 years prior to 2017/18 the methodology was based on the average monthly costs for the period October to January (i.e. the most recent 4 months data).

The basis for 2017/18 included an additional assessment of anticipated costs due to the huge fluctuations experienced in No Cheaper Stock Options (NCSO) for a number of drugs during that year. However, this, methodology resulted in an over accrual with prices actually reducing in February and March 2018. For 2019/19 there has been little fluctuation in NCSO drugs and so it is proposed to revert to the accrual methodology used for the 3 years prior to 2017/18. However, information published in February and March will again be used as in previous years to assess whether there are any other drugs where the cost and/or associated volumes is likely to have an adverse or favourable material impact. This work cannot be finalised until mid-March, but will be used to consider whether an adjustment will be needed to the overall accrual value. In

addition, further adjustments may also need to be made for Category M movements effective from January 2019 which impact in February and March.

C. RETROSPECTIVE CONTINUING HEALTH CARE CLAIMS (OMBUDSMAN PROVISION)

i. Background

At the start of 2011/12, the ABMU Ombudsman Nursing team was disbanded and all cases received prior to 15th August 2010 (Phase 1), were transferred to the Powys Teaching Health Board (Powys HB), to be managed using a standardised All Wales approach. Cases received after 16th August 2010 (Phase 2) were until the end of 2015/16 managed by ABMU but nearly all of the remaining cases have now been transferred to Powys HB to assist with progressing them to their conclusion.

During 2014, the Welsh Government launched an advertising campaign to draw the public's attention to the cut-off date for retrospective continuing NHS health care claims relating to the period 1st April 2003 to 31st July 2013 (Phase 3). Claimants needed to register their intent to claim by 31st July 2014, and no later than 31st December 2014 (later extended by Welsh Government to 31st January 2015), to provide evidence of their right to make the claim and proof of fees paid to the care home or domiciliary agency. The intent to claim and the supporting documentation had to be submitted to the All Wales Retrospective Review Team with Powys HB.

Financial responsibility for all post 2003 claims, regardless of when they were received, rests with the Health Board and pre 2003 cases with Welsh Government.

ABMU receives regular monthly reports from Powys HB, which show the outcome of all claims processed to date across all other NHS Wales Health Boards. On a case by case basis, the reports state the number of weeks claimed for and the number of weeks they were actually eligible for reimbursement. As of 30th April 2019 the Powys HB team will be disbanded and any remaining phase 2 and phase 3 claims which have not been settled will revert to the management of the ABMU Health Board. This will include claims lodged relating to the Bridgend population.

Further annual publicity campaigns have resulted in the ability to claim for periods post July 2013. As at 31st March 2019, there will therefore be claims in existence for phases 4, 5, 6 and 7.

ii. Accruals Methodology (Phase 2)

For the past five years, the methodology agreed with WAO for retrospective CHC claims has been based on two key variables:

- **Weekly Rates Paid**

All the cases paid out by ABMU since 2011/12 were analysed to determine the average weekly rate paid. The total value of payments made was divided by the total number of weeks paid to provide an average weekly rate.

- **Success Factors**

The reports distributed by Powys HB on all claims processed across NHS Wales since 2011/12, was used to determine likely success rates for the remaining outstanding cases (number of eligible weeks approved compared to number of weeks applied for by the claimants).

Until 2012/13, the Health Board used the All Wales Success Factor but since 2013/14 the ABMU Success Factor was used since this was considerably lower on a consistent basis.

For 2018/19, it is proposed to continue to use local success rates and average weekly reimbursed rates as at 31st March 2019.

iii. Accruals Methodology (Phase 3)

In 2013/14 the All Wales Directors of Finance Group asked the former ABMU Director of Finance (now Powys Health Board Director of Finance) to lead a Group to discuss and assess the potential accounting treatment for the Phase 3 Retrospective CHC Cases, on behalf of all Health Boards in NHS Wales.

Up until 2016/17, the number of cases progressed by Powys HB was deemed in agreement with Wales Audit office (WAO) to be an insufficient number to be able to reliably estimate provisions for these cases, and therefore these claims were disclosed in the financial statements as a narrative within the contingent liabilities note.

In 2017/18, however, significant progress was made in settling claims to allow a provision to be reliably estimated for these claims. At that stage for the 2017/18 accounts ABMU agreed to follow the same methodology as for phase 2 claims utilising the average weekly rate reimbursed at 31st March 2018 and the local success factors. It was further agreed that provisions for phase 3 claims would be funded from AME funding by Welsh Government.

For 2018/19 it is proposed that there are no changes to the methodology of utilising the average weekly rate reimbursed at 31st March 2019 and the local success factors. The AME funding provided by WG will be managed to ensure that there is no financial benefit or loss to the health board from movements in the provision for phase 3 cases.

iv. Accruals Methodology (Phases 4 to 7)

For phase 4 and subsequent phases, as for phase 3 it has been agreed with WAO that when 25-30% of cases lodged have been completed that a sufficient evidence base should be available to make a reliable estimate for probable claims. It was further agreed that any provision estimates for phases 4, 5, 6 and 7 should not be presumed to use evidence from phase 3 as different phases reflect different claim periods. It was therefore agreed that local methodologies in determining provisions should be used. For ABMU it is proposed that any provisions made for phase 4, 5, 6 and 7 claims will be based on the same methodology applied for claims in phases 2 and 3.

D. MOVEMENT IN OTHER KEY PROVISIONS

I. Early Retirement Pension Provision / Permanent Injury

There has been a further change in the Discount Factors to be applied in line with the draft Manual for Accounts issued by Welsh Government in December 2018. This directs health boards to use 0.29% this year (0.10% 2017/18). This will result in a benefit of £0.121m this year.

II. Defence Fee Provision For Probability 3 (possible) Successful Legal Claims

As is the case for previous years, in order to comply with the requirements of IAS 37: Accounting for Provisions, Welsh Government has issued guidance regarding the accounting treatment of defence fees for legal claims where the chance of success is deemed as possible (Probability 3: 6-49%).

For the defence legal costs provision of claims within the possible category, the obligating event is a claim being received in respect of Clinical Negligence or Personal Injury.

It is probable, when considering the possible claims as a cohort, that this obligating event may lead to a future transfer of economic benefit in that the organisation may incur some costs in investigating the alleged claim, and therefore a provision is required for the possible claims as a cohort and for which a reliable estimate can be made based on local information held for similar cases. The estimate cannot be made reliably on a claim by claim basis; rather the analysis of historical information covering a three year period should be used.

The table below shows the prescribed accounting treatment to be applied for all claims based on their probability of success:

Probability of Success of Claim	Accounting Treatment
Certain 95-100% Success	<i>Defence Fee Provision at 100% of cost advised by Welsh Health Legal Services on their quantum reports</i>
Probable 50- 95% Success.	<i>Defence Fee Provision at 100% of cost advised by Welsh Health Legal Services on their quantum reports</i>
Possible 6-49% Success	<i>Defence Fee Provision Required – Provision to be based on the Welsh Health Legal Services quantum reports</i> - Organisations with numerous claims should base the provision on three year's historical cost data. Note there may be different % values for clinical negligence and personal injury cases, and the % values will be calculated using the methodology agreed.
Remote 0- 5% success	<i>No provision or contingent liability required</i>

In 2017/18 the Health Board provided on the basis outlined in the table above with the percentages used to provide for probability 3 cases being 9.68% for Clinical Negligence cases and 35.82% for Personal Injury cases. An exercise has been undertaken to update the percentages to be used provide for probability 3 cases taking into account the most recent 3 years actual payments made, which has resulted in revised percentages to be used of 10.01% for Clinical Negligence cases and 43.92% for Personal Injury cases. Based on the 3rd quarter quantum reports from Welsh Health Legal Services this has resulted in an increase in the provision of £0.024m.

E. LEASES

Work is ongoing to review new leases issued in 2017/18 to ensure that the correct accounting treatment has been applied. Under IFRS, each lease must be judged against a range of criteria to assess whether the lease is a finance or operating lease. This work will be completed in early April 2019.

4. FINANCIAL IMPLICATIONS

- 4.1 As this report details, the major accounting policies and methodologies to be used in calculating significant material estimates, there are significant financial implications for the health board in terms of the year end accounts and financial outturn for the health board.
- 4.2 The process of identifying and getting agreement from WAO of the principles to be applied ensures that in the event that there are variations between the significant estimates and the actual outturn figures when available in May and June that there should not be a requirement to make late amendments to the accounts after the draft accounts have been submitted to WG and the Audit Committee.

5. RECOMMENDATIONS

- 5.1. The Audit Committee is asked to note and approve:
 - a) The timetable, key dates and milestones for the submission of the Annual Accounts for 2018/19;
 - b) the arrangements in place for the review and adoption of the Annual Accounts;
 - c) the approach for accounting for capital issues, including the need for off-site storage of capital equipment;
 - d) the approach for accounting for primary care accruals;
 - e) the approach for accounting for retrospective continuing health care claims;
 - f) the anticipated movements in other key provisions;
 - g) the review of leases to ensure correct accounting treatment.