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CYMRU
NHS
WALES

Bwrdd Iechyd Prifysgol
Bae Abertawe
Swansea Bay University
Health Board



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| Meeting Date | 19 September 2019 | Agenda Item | 5.3 |
| Report Title | Bridgend Boundary Change Balance Sheet Disaggregation Process | | |
| Report Author | Andrew Biston, Head of Accounting and Governance | | |
| Report Sponsor | Lynne Hamilton, Director of Finance | | |
| Presented by | Andrew Biston, Head of Accounting and Governance Finance | | |
| Freedom of Information | Open | | |
| Purpose of the Report | To provide an update to the Audit Committee on the Bridgend boundary change balance sheet disaggregation process. | | |
| Key Issues | <p>In order to transfer the assets and liabilities to Cwm Taf Morgannwg Health Board for the services which transferred on 1st April 2019, transfer documents known as S1 and S2 must be signed by both Chief Executives and audited by Wales Audit Office.</p> <p>Draft S1 and S2 documents have been completed and shared with Cwm Taf Morgannwg Health Board and Wales Audit Office commenced their audit on 10th September.</p> <p>As a result of the Bridgend boundary change, £150.348m of fixed assets, £6.209m of current assets and £26.185m of liabilities will transfer to Cwm Taf Morgannwg Health Board based on the balance sheet values as at 31st March 2019.</p> <p>There is a requirement to transfer £19.976m of cash to Cwm Taf Morgannwg Health Board to enable them to clear the net liabilities transferring to them. This will result in a deterioration in the working capital and associated cash position of the Swansea Bay Health Board which will require working balances cash support in 2019/20. This has been flagged with Welsh Government in the monthly cashflow forecasts.</p> | | |

| Specific Action Required (please choose one only) | Information | Discussion | Assurance | Approval |
|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|
| | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Recommendations | <p>Members are asked to:</p> <p>Note</p> <p>The current position in respect of the Bridgend boundary change balance sheet disaggregation process.</p> | | | |

1. INTRODUCTION

- 1.1. As a result of the Bridgend boundary change, the “Transfer of Staff, Property and Liabilities (Wales) Order 2019” requires that all assets and liabilities held on the balance sheet as at 31st March 2019 for services transferring to Cwm Taf Morgannwg Health Board be identified and formally transferred. The only agreed exception to this is in respect of the provisions held on the balance sheet for Clinical Negligence, Personal Injury and Retrospective Continuing Healthcare Claims where the order requires the claims in existence prior to the transfer date to remain with Swansea Bay Health Board and be accounted for and managed to their conclusion through the Swansea Bay Health Board. It was also agreed that statutory payments relating to March 2019 requiring payment in April 2019 would not transfer, these items being employment tax creditors, National Insurance creditors, superannuation creditors and VAT claims.
- 1.2. The process for the transfer of the assets and liabilities is through a formal transfer documents named an S1 for fixed assets including land and buildings and S2 for current assets and liabilities including debtors, creditors, cash and provisions. The S1 and S2 documents need to be signed by the Chief Executives of both organisations in their role as accountable officer and are subject to audit by Wales Audit Office prior to submission to Welsh Government.
- 1.3. The S1 and S2 documents and all supporting backing documentation have been prepared and shared with Cwm Taf Morgannwg Health Board and Wales Audit Office commenced their audit on Tuesday 10th September.

2. BACKGROUND

- 2.1. During the second half of the 2018/19 financial year, the Finance Workstream of the Bridgend boundary change project discussed and agreed the methodology for splitting every asset and liability which would be held on the balance sheet as at 31st March 2019. The overriding principles were that the audited balance sheet as at 31st March 2019 would be the base document for splitting the assets and liabilities and that where the service transferred the asset/liability would transfer, with detailed discussions required as to how assets and liabilities relating to corporate areas at the balance sheet date would be split. This resulted in an agreement to split corporate assets and liabilities on a 72:28 split in line with the allocation split.
- 2.2. Once agreement on the methodology for splitting assets and liabilities had been agreed, detailed discussions took place with regards to those areas where significant estimates are required to be included in the balance sheet at year end (particularly for primary care contracts where 2 months accruals are required) and where there may be a difference between the actual value and the accrual at the balance sheet date. This agreement resulted in the first £250k of any difference between the actual and accrual value being borne by Cwm Taf Morgannwg Health Board.

- 2.3. Agreement was also reached on the process for clearing assets and liabilities in the period between 31st March 2019 and the date of sign off of the S1 and S2 documentation and formal transfer of the balances. It was agreed that the Swansea Bay Health Board would continue to pay creditor invoices and receive cash for debtor invoices relating to balances held as at 31st March 2019 until the formal transfer took place. At that point a formal cash transfer between the two organisations will take place to clear any remaining balances, anticipated to be at the end of October.
- 2.4. Since the sign off of the year end accounts, the Finance team have reviewed every transaction on the balance sheet at year end to identify whether the asset/liability relates to a service that has transferred to Cwm Taf Morgannwg Health Board, remained in Swansea Bay Health Board or relates to a corporate function. This has been hugely resource intensive as every outstanding debtors invoice, every creditors invoice, every accrual and prepayment entry, every stock balance, every provision, every capital asset and every petty cash float has had to be reviewed and flagged as either remaining, transferring or being split in order to construct the working papers to support the preparation of the S1 and S2 document. This has been particularly difficult where the service is a corporate service, where the service has been split or where an asset/liability covers the Swansea and Bridgend areas and so therefore needs to be split, as this may not be a 72:28 split.
- 2.5. The detailed analysis of all transactions on the balance sheet as at 31st March 2019 has resulted in the following split, which is summarised in the draft S1 and S2 documents attached as **Appendix A:**

| Asset/Liability | Swansea Bay £000 | Cwm Taf Morgannwg £000 |
|-------------------------------------|-----------------------------|-----------------------------------|
| Fixed Assets (S1 Document) | | |
| Land, Buildings & Equipment | 464,541 | 150,348 |
| Total Fixed Assets | 464,451 | 150,348 |
| Current Assets (S2 Document) | | |
| Stock | 8,518 | 1,716 |
| Debtors | 162,087 | 2,739 |
| Income Accruals | 4,181 | 884 |
| Prepayments | 4,271 | 836 |
| Cash & Cash Equivalents | 796 | 34 |
| Total Current Assets | 179,853 | 6,209 |
| Liabilities (S2 Document) | | |

| | | |
|-------------------------------|------------------|-----------------|
| Creditors | (113,297) | (10,894) |
| Expenditure Accruals | (52,904) | (14,084) |
| Provisions | (149,298) | (1,207) |
| Total Liabilities | (315,499) | (26,185) |
| Net Working Capital | (136,546) | (19,976) |
| | | |
| Taxpayers Equity | | |
| Revaluation Reserve | 32,041 | 18,851 |
| Total taxpayers Equity | 32,041 | 18,851 |

- 2.6. The draft S1 and S2 documents and the detailed backing documentation to support every balance has been shared with Finance colleagues in Cwm Taf Morgannwg Health Board and Wales Audit Office commenced their audit of the S1/S2 process on 10th September. Following completion of the audit, the S1 and S2 documents will need to be signed by the Chief Executives of both health boards and submitted to Welsh Government.
- 2.7. Based on the table above, in order to clear the balances from the Swansea Bay Health Board balance sheet, then Cwm Taf Morgannwg Health Board should provide £6.209m in cash to Swansea Bay Health Board to acquire the current assets that transfer to them, whilst Swansea Bay Health Board should provide £26.185m of cash to Cwm Taf Morgannwg Health Board to enable them to discharge the liabilities transferring to them. This would result in a net cash transfer from Swansea Bay Health Board to Cwm Taf Morgannwg Health Board of £19.976m. The transfer of the fixed assets and revaluation reserves balances are treated as transfers through the general fund of both health boards and no cash transactions will take place.
- 2.8. As mentioned in paragraph 2.3 above, however, Swansea Bay Health Board has continued pay creditor invoices and receive cash for debtor invoices relating to balances held as at 31st March 2019. Work is ongoing to review every transaction that has taken place since 1st April in order to determine which assets and liabilities have been discharged since the balance sheet date. This will result in the actual cash transfer being different to that derived from the S2 documentation and is anticipated to be completed by the end of September.

3. GOVERNANCE AND RISK ISSUES

- 3.1. The Governance arrangements for the transfer of assets and liabilities arising as a result of the Bridgend boundary change are clearly set out by the following requirements:
- a. The “Transfer of Staff, Property and Liabilities (Wales) Order 2019” which details the assets and liabilities to transfer.
 - b. The Welsh Government requirement for the completion of S1 and S2 transfer documents which must be signed by the Chief Executives of both health boards
 - c. The requirement for Wales Audit Office to audit the S1 and S2 documents prior to sign off by both Chief Executives.
- 3.2. Prior to preparing the S1 and S2 documentation, local governance arrangements were put in place via the Finance Workstream of the Bridgend boundary change project which ensured that the methodology for the disaggregation of all balances on the balance sheet as at 31st March 2019 was agreed up front and reported through to the transition board.
- 3.3. The main risk to the process is that the formal transfer of the balances remaining on the balance sheet is not completed in a timely manner. It is essential that all balances are cleared at the latest by the end of the 2019 calendar year, with the timetable agreed under the boundary change project being the end of October. At present the work has been completed in line with the timetable agreed, the next deadline being sign off by Wales Audit Office and both Chief Executives of the S1 and S2 documentation by the end of September. As of today (6th September) no queries have been raised by Finance colleagues at Cwm Taf Morgannwg Health Board regarding the balances identified for transfer but in the event that queries or disputes are raised, then there is a risk of delay to the process.

4. FINANCIAL IMPLICATIONS

- 4.1. As identified earlier in this report due to the timing of the receipt of primary care contract information, which is 2 months behind, significant financial estimates in the form of accruals were required in the year-end balance sheet. In the event that the actual costs differ from those accrued there will be financial benefits or additional costs to the Cwm Taf Morgannwg Health Board as the organisation taking the assets and liabilities. Based on the agreement reached in the Finance Workstream, all benefits/costs up to a cumulative value of £250k will be borne by Cwm Taf Morgannwg Health Board, with any benefits/costs in excess of this sum being picked up by Swansea Bay Health Board. Until the work is completed to review which assets/liabilities have cleared it is not possible to finalise the difference between items accrued and actual amounts paid.
- 4.2. The bigger issue for the Swansea Bay Health Board is the impact on cash in 2019/20. As identified in the table above there is a requirement to transfer £19.976m of cash to Cwm Taf Morgannwg Health Board to enable them to clear the net liabilities transferring to them. Whilst the actual cash that transfers in October will be different to this value as the Swansea Bay Health Board has

already paid out a significant part of this cash through clearance of creditor invoices for services that have transferred in the first 4 months of this financial year, the impact of the transfer will mean a net deterioration in the Swansea Bay Health Board's working balances position for 2019/20 and the requirement for working balances cash support from Welsh Government. This requirement has been identified in the cashflow forecasts provided to Welsh Government monthly through the monitoring returns and in the accompanying monitoring returns commentary.

5. RECOMMENDATIONS

- 5.1. The Audit Committee is asked to note progress made in the Bridgend boundary change balance sheet disaggregation process and the significant Finance staff resources required and continuing to be required to prepare the S1 and S2 documentation and identify the assets and liabilities which have cleared in 2019/20 for those assets and liabilities transferring .
- 5.2. Note that £150.348m of fixed assets, £6.209m of current assets and £26.185m of liabilities will transfer to Cwm Taf Morgannwg Health Board as a result of the Bridgend boundary change
- 5.3. Note the impact on the cash position of the health board and the requirement to obtain working capital cash support from Welsh Government as a result of having to transfer £19.976m of cash to Cwm Taf Morgannwg Health Board as a result of the boundary change.

| Governance and Assurance | | |
|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------|
| Link to Enabling Objectives (please choose) | Supporting better health and wellbeing by actively promoting and empowering people to live well in resilient communities | |
| | Partnerships for Improving Health and Wellbeing | <input type="checkbox"/> |
| | Co-Production and Health Literacy | <input type="checkbox"/> |
| | Digitally Enabled Health and Wellbeing | <input type="checkbox"/> |
| | Deliver better care through excellent health and care services achieving the outcomes that matter most to people | |
| | Best Value Outcomes and High Quality Care | <input type="checkbox"/> |
| | Partnerships for Care | <input type="checkbox"/> |
| | Excellent Staff | <input type="checkbox"/> |
| | Digitally Enabled Care | <input type="checkbox"/> |
| | Outstanding Research, Innovation, Education and Learning | <input type="checkbox"/> |
| Health and Care Standards | | |
| (please choose) | Staying Healthy | <input type="checkbox"/> |
| | Safe Care | <input type="checkbox"/> |
| | Effective Care | <input type="checkbox"/> |
| | Dignified Care | <input type="checkbox"/> |
| | Timely Care | <input type="checkbox"/> |

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| | Individual Care | <input type="checkbox"/> |
| | Staff and Resources | <input type="checkbox"/> |
| Quality, Safety and Patient Experience | | |
| There are no quality, safety and patient experience implications of the proposal. | | |
| Financial Implications | | |
| <p>In the event that the actual costs differ from those accrued there will be financial benefits or additional costs. Based on the agreement reached in the Finance Workstream, all benefits/costs up to a cumulative value of £250k will be borne by Cwm Taf Morgannwg Health Board, with any benefits/costs in excess of this sum being picked up by Swansea Bay Health Board. Until the work is completed to review which assets/liabilities have cleared it is not possible to finalise the difference between items accrued and actual amounts paid.</p> <p>There is a requirement to transfer £19.976m of cash to Cwm Taf Morgannwg Health Board to enable them to clear the net liabilities transferring to them. The impact of the transfer will mean a net deterioration in the Swansea Bay Health Board's working balances position for 2019/20 and the requirement for working balances cash support from Welsh Government.</p> | | |
| Legal Implications (including equality and diversity assessment) | | |
| <p>The legal basis for this paper is the "Transfer of Staff, Property and Liabilities (Wales) Order 2019" which requires that all assets and liabilities held on the balance sheet as at 31st March 2019 for services transferring to Cwm Taf Morgannwg Health Board be identified and formally transferred. The only agreed exception to this is in respect of the provisions held on the balance sheet for Clinical Negligence, Personal Injury and Retrospective Continuing Healthcare Claims where the order requires the claims in existence prior to the transfer date to remain with Swansea Bay Health Board and be accounted for and managed to their conclusion through the Swansea Bay Health Board.</p> | | |
| Staffing Implications | | |
| <p>There have been significant staff resource requirements in arriving at the draft S1/S2 position with a dedicated member of staff funded from the Bridgend transition funding working solidly on preparing the S1/S2 and detailed backing to support the balances to transfer. This work is ongoing to identify the balances which have cleared in the first 5 months of 2019/20.</p> | | |
| Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015) | | |
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| Report History | There have been no previous reports on this issue. | |
| Appendices | Appendix A – detailed analysis of transactions | |