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Bwrdd Iechyd Prifysgol
Bae Abertawe
Swansea Bay University
Health Board



Meeting Date	28 November 2019	Agenda Item	4.2
Report Title	Bridgend Boundary Change Transfer of Assets and liabilities as at 1st April 2019		
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	Open		
Purpose of the Report	To obtain approval from the health board of the assets and liabilities to transfer to Cwm Taf Morgannwg Health Board with effect from 1 st April as a result of the Bridgend boundary change, to enable the Chief Executive to sign the S1 and S2 transfer documents on behalf of the health board.		
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>S1 and S2 documents have been completed and shared with Cwm Taf Morgannwg Health Board and Wales Audit Office have audited the documents.</p> <p>As a result of the Bridgend boundary change, £150.341m of fixed assets, £6.201m of current assets and £25.858m 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 £19.657m 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 cash flow forecasts in the monthly monitoring returns.</p>		

Specific Action Required <i>(please choose one only)</i>	Information	Discussion	Assurance	Approval
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Recommendations	<p>Members are asked to:</p> <ul style="list-style-type: none"> • APPROVE the value of the assets and liabilities to transfer to Cwm Taf Morgannwg Health Board with effect from 1st April as a result of the Bridgend boundary change. • APPROVE the sign off of the S1 and S2 documents by the Chief Executive on behalf of the health board. 			

BRIDGEND BOUNDARY CHANGE TRANSFER OF ASSETS AND LIABILITIES AS AT 1ST APRIL 2019

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 formal transfer documents in the form of 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. The documents and the details of the balances to transfer were also reported to the Audit Committee at its meeting in September.
- 1.4. Wales Audit Office have now concluded their audit of the balances identified for transfer and their report on the process is attached as **Appendix B**. This report has also been shared with Cwm Taf Morgannwg Health Board and was shared with the Audit Committee at their meeting on 21st November.

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.
- 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 B**:

Asset/Liability	Swansea Bay £000	Cwm Taf Morgannwg £000
Fixed Assets (S1 Document)		
Land, Buildings & Equipment	464,547	150,341
Total Fixed Assets	464,547	150,341
Current Assets (S2 Document)		
Stock	8,518	1,716
Debtors	162,093	2,732
Income Accruals	4,183	883

Prepayments	4,271	836
Cash & Cash Equivalents	796	34
Total Current Assets	179,861	6,201
Liabilities (S2 Document)		
Creditors	(113,634)	(10,555)
Expenditure Accruals	(52,893)	(14,096)
Provisions	(149,298)	(1,207)
Total Liabilities	(315,825)	(25,858)
Net Working Capital	(135,964)	(19,657)
Taxpayers Equity		
Revaluation Reserve	32,041	18,851
Total taxpayers Equity	32,041	18,851

- 2.6. The 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. Wales Audit Office have now completed their audit of the process for preparing the S1 and S2 documentation and their report is attached as **Appendix B**. Following completion of the audit, the S1 and S2 documents will need to be signed by the Chief Executives of both health boards and Wales Audit Office and submitted to Welsh Government.
- 2.7. In order to clear the balances from the Swansea Bay Health Board balance sheet, Cwm Taf Morgannwg Health Board should provide £6.201m in cash to Swansea Bay Health Board to acquire the current assets that transfer to them, whilst Swansea Bay Health Board should provide £25.858 of cash to Cwm Taf Morgannwg Health Board to enable them to discharge the liabilities transferring to them. This results in a net cash transfer from Swansea Bay Health Board to Cwm Taf Morgannwg Health Board of £19.657m. 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 nearing completion 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.

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. Following sign off by both Chief Executives of the S1 and S2 documentation, the health board will begin to process the cash transactions through a staged approach to clear the balances from the Swansea Bay Health Board financial ledger A meeting is being arranged with Cwm Taf colleagues to agree how this is done to ensure robust financial control during the transfer 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

£19.657m 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 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 7 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 cash flow forecasts provided to Welsh Government monthly through the monitoring returns and in the accompanying monitoring returns commentary.

5. RECOMMENDATIONS

Members are asked to:

- **APPROVE** the value of the assets and liabilities to transfer to Cwm Taf Morgannwg Health Board with effect from 1st April as a result of the Bridgend boundary change.
- **APPROVE** the sign off of the S1 and S2 documents by the Chief Executive on behalf of the health board.

Governance and Assurance

Link to Enabling Objectives <i>(please choose)</i>	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 checked="" type="checkbox"/>
	Partnerships for Care	<input checked="" 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

<i>(please choose)</i>	Staying Healthy	<input type="checkbox"/>
	Safe Care	<input checked="" type="checkbox"/>
	Effective Care	<input type="checkbox"/>
	Dignified Care	<input type="checkbox"/>
	Timely Care	<input type="checkbox"/>
	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

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.

There is a requirement to transfer £19.657m 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.

Legal Implications (including equality and diversity assessment)

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.

Staffing Implications

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.

Long Term Implications (including the impact of the Well-being of Future Generations (Wales) Act 2015)

There are no long term implications associated with this report

Report History

A draft report on the Bridgend Boundary Change Transfer of Assets and liabilities, prior to the completion of the audit work by Wales Audit Office was presented to the Audit Committee in September 2019.

Appendices

Appendix 1 – S1 and S2 transfer documents

Appendix 2 – Wales Audit Office report on the audit of the transfer of assets and liabilities from ABMU to Cwm Taf Health Board on 1st April 2019.

FORM S2
LOCAL HEALTH BOARD TO LOCAL HEALTH BOARD TRANSFER OF ASSETS

STATEMENT OF THE VALUE OF NON-CURRENT ASSETS TRANSFERRING FROM ABERTAWA BRO MORGANNWG UNIVERSITY
LOCAL HEALTH BOARD TO THE STATEMENT OF FINANCIAL POSITION OF CWM TAF HEALTH BOARD AS AT 1 APRIL 2019

ABERTAWA BRO MORGANNWG UNIVERSITY LOCAL HEALTH BOARD

	£000
<u>Non Current Assets</u>	
Trade and other receivables	0
Other financial assets	0
Other current assets	0
<u>Current Assets</u>	
Inventories	1,716
Trade and other receivables	4,451
Other financial assets	0
Other current assets	0
Cash and cash equivalents	34
Total Value of Assets ¹	6,201
<u>Liabilities ²</u>	
Trade and other payables	(24,651)
Borrowings	0
Other financial liabilities	0
Provisions	(1,207)
Other liabilities	0
Total Value of Liabilities	(25,858)
Total Value Net Working Capital Transferred	(19,657)

This should include creditors in respect of Assets Under Construction included in Form S1 where appropriate.

Total value of intra-trust debtors to be eliminated on merger
Total value of intra-trust creditors to be eliminated on merger
Cash in Transit

CERTIFICATE OF COMPLETION LHB

I agree that the assets and liabilities recorded in this statement were transferred to Cwm Taf Health Board on 1 April 2019

.....
Date Chief Executive, Abertawe Bro Morgannwg University Local Health Board

AUDIT CERTIFICATE SIGNED ON BEHALF OF THE AUDITOR GENERAL FOR WALES

I / We have examined the entries in this form and the related accounts and records of the trust. I conclude that [subject to the observations in the attached report dated ____*] the entries in the form are consistent with the accounting records of Abertawe Bro Morgannwg University Local Health Board .

.....
Date Auditor

* Delete as necessary

1. Excluding those stated in S1
2. Should include current and non current amounts



Briefing note

Reference:

Date issued: 30th October 2019

Key contact: Jason Blewitt

Audit of the transfer of assets and liabilities from ABMU to Cwm Taf Health Boards on 1 April 2019

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Introduction

Background

- 1 From 1 April 2019, the responsibility for commissioning healthcare services for the people in the Bridgend County Borough Council (BCBC) area moved from Abertawe Bro Morgannwg University Health Board (ABMUHB) to Cwm Taf University Health Board (CTUHB). From 1 April 2019, the former Abertawe Bro Morgannwg University Health Board was renamed Swansea Bay University Local Health Board (SBUHB).
- 2 In order to account for the transfer of operations correctly, the assets and liabilities need to be removed from ABMU and included within Cwm Taf from 1 April 2019.
- 3 In accordance with usual arrangements, the Welsh Government has required completion of S1 and S2 forms to facilitate this process, which have been provided to us to audit.
- 4 These forms respectively record:
 - S1: the value of Property, Plant and Equipment and Intangible non-current assets transferring; and
 - S2: the value of other non-current assets and current assets and liabilities transferring.

Audit approach

- 5 We have followed the audit instructions agreed with the Welsh Government for previous transfer of functions within the NHS.
- 6 Our requirement is to undertake sufficient and appropriate audit work to provide assurance that the values of the assets and liabilities recorded within the S1 and S2 forms are not inconsistent with ABMU's accounting records.
- 7 Firstly, we were required to undertake a Risk and Testing Assessment (RaTA). It considers:
 - Overall risk: the level of inherent risk attached due to the value, volume and complexity of the entries on the S1/S2 forms.
 - Control environment: consideration of the adequacy of procedures put in place to identify transferring assets and liabilities, quality of working papers provided in support of the S1/S2 forms, and expertise and knowledge of the preparers.
 - Risk index: summarises outputs from above to produce an overall risk score which determines the minimum level of coverage by population value to be tested through substantive procedures (low risk = 10%, medium risk = 25%, high risk = 40%).

- 8 The concept of materiality by value is not applicable to our audit of the transfer of assets and liabilities.
- 9 Our RaTA concluded a medium risk to be applied to substantive testing.
- 10 We substantively tested the s1 and s2 returns to confirm that:-
- entries on the s1 and s2 returns and supporting working papers agreed to ABMU's accounting records and 2018-19 audited accounts;
 - sample testing of 25% of the entries in each line of the s1 and s2 forms (in line with our medium risk assessment) provided assurance that:
 - only assets and liabilities relating to the services being transferred are included (existence / rights and obligations) and the apportionment method agrees to that agreed between the bodies;
 - assets and liabilities transferred are recorded at the correct value (valuation / allocation);
 - all assets and liabilities relating to the services being transferred are included in the s1 and s2 returns (completeness / rights and obligations).
- 11 The results of our substantive testing are detailed in the Audit Findings section and formal conclusions are detailed in the Audit Reports section below.

Audit Findings

- 12 We received the draft S1 and S2 forms on 10th September 2019.
- 13 Our testing is now complete.
- 14 We identified the following errors which management have agreed to amend:

S1 Return

Cells / lines to be amended	Reason for amendment	Amount of amendment £
Property, Plant and Equipment: Transport Equipment	PPE: Transport equipment should be reduced by £6,000 due to an error identified by Cwm Taf.	£(6,000)

S2 Return

Cells / lines to be amended	Reason for amendment	Amount of amendment £
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Trade and other payables	An invoice from Fujifilm totalling £270,084.95 has been fully transferred to Cwm Taf on the draft S2 form (within Trade and other payables). However, £160,752 of this relates to Singleton Hospital and so the S2 creditors should be reduced by this amount.	£160,752
Trade and other payables	Trade and other payables should be reduced by £12,000 due to a wrong code being used on an accrual identified by SBUHB.	£12,000

- 15 Based on our audit testing we do not believe that these errors are systemic and are isolated.
- 16 In addition, discussions between ABMU and Cwm Taf have identified the following amendments which management have agreed to amend:-

S1 Return

Cells / lines to be amended	Reason for amendment	Amount of amendment £
No amendments identified.		

S2 Return

Cells / lines to be amended	Reason for amendment	Amount of amendment £
Trade and other receivables	Trade and other receivables should be reduced by £8,272 due to a change of cost centres agreed by SBUHB and Cwm Taf.	(£8,272)

Trade and other payables	Trade and other payables should be reduced by £152,722 due to a change of cost centres agreed by SBUHB and Cwm Taf.	£152,722
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- 17 It should be noted that for all accruals/prepayments or invoices raised in the new financial year (post 1 April 2019) relating to a service that has transferred across to Cwm Taf are outside of this audit work. We understand that these are being recorded in a holding account within Swansea Bay Health Board and are reviewed as and when they arise to either match them against the s2 return where these were accounted for at year end or if these are a new entry then these will be dealt with on a case by case basis between the Health Boards. This process will run until the cash transfer between the Health Boards is finalised.

Audit Report

- 18 Our audit work is now complete. Our audit report is detailed as follows:-
We have examined the entries in forms S1 and S2 and the related accounts and records of ABMU. We conclude that subject to the matters raised in paragraphs 14-17 above, nothing has come to our attention to indicate that the entries in the form do not agree with the accounting records of ABMU.