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WALES

Bwrdd Iechyd Prifysgol  
Abertawe Bro Morgannwg  
University Health Board



<b>Meeting Date</b>	<b>15<sup>th</sup> March 2018</b>	<b>Agenda Item</b>	<b>3d</b>
<b>Report Title</b>	<b>Annual Accounts Update</b>		
<b>Report Author</b>	Andrew Biston, Head of Accounting & Governance		
<b>Report Sponsor</b>	Lynne Hamilton, Director of Finance		
<b>Presented by</b>	Lynne Hamilton, Director of Finance		
<b>Freedom of Information</b>	Closed		
<b>Purpose of the Report</b>	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 2018.		
<b>Key Issues</b>	<ul style="list-style-type: none"> <li>a) The timetable, key dates and milestones for the submission of the Annual Accounts for 2017/18;</li> <li>b) the arrangements in place for the review and adoption of the Annual Accounts;</li> <li>c) the approach for accounting for capital issues, including the need for off-site storage of capital equipment;</li> <li>d) the approach for accounting for primary care accruals;</li> <li>e) the approach for accounting for retrospective continuing health care claims;</li> <li>f) the anticipated movements in other key provisions;</li> <li>g) the review of leases to ensure correct accounting treatment.</li> <li>h) the proposed accounting treatment and funding arrangements for the Supreme Court ruling regarding FNC rates.</li> </ul>		
<b>Specific Action Required</b> <i>(please ✓ one only)</i>	<b>Information</b>	<b>Discussion</b>	<b>Assurance</b>
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<b>Recommendations</b>	<p>Members are asked to:</p> <ul style="list-style-type: none"> <li>• <b>Note</b> The key issues identified above</li> </ul>		

## 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 31<sup>st</sup> March 2018.

## 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	4 <sup>th</sup> April 2018
Sign off date for Agreement of NHS Wales Debtors & Creditors	10 <sup>th</sup> April 2018
Issue Income transactions to NHS Wales bodies	11 <sup>th</sup> April 2018
Sign off date for agreement of NHS Wales Income & Expenditure	18 <sup>th</sup> April 2018
Finalise Health Board Outturn Position	11 <sup>th</sup> April 2018
Close Health Board old year financial ledger	11 <sup>th</sup> April 2018
Submit LMS to Welsh Government	19 <sup>th</sup> April 2018
Preparation of draft Accounts for Senior Finance Team review	20 <sup>th</sup> April 2018
Submission of draft Accounts	27 <sup>th</sup> April 2018 (Noon)
Submission of Audited Accounts	1 <sup>st</sup> June 2018

## 3. GOVERNANCE AND RISK ISSUES

- 3.1. The Audit Committee meeting already scheduled for Thursday, 19<sup>th</sup> May 2018, 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, 30<sup>th</sup> May 2018, 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, 1st June 2018

- 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 2017/18. This will require revaluations from the District Valuer where schemes completing in-year have works and fees costs exceeding £0.5m. There are 6 schemes that we anticipate will require revaluation values this year.

### **ii. Storage of Equipment**

The Health Board plans to have 3 items of equipment held in off-site storage on the 31<sup>st</sup> March 2018. There are also a number of schemes due to complete in March 2018 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 2017/18 accounts.

### **iii. Revaluation of Estate**

The Valuation Office Agency has undertaken its 5 yearly revaluation of the NHS Estate across Wales and has issued its report. These movements have been reflected in the fixed asset register from 1<sup>st</sup> April 2017.

### **iv. Revaluation Reserves**

As agreed across NHS Wales, revaluation reserves will now be held at building level rather than site level. This change in accounting policy which has been agreed with Wales Audit Office through the All Wales Capital TAG group has been applied retrospectively back to 1<sup>st</sup> April 2012. In order to ensure that reserve balances are accurately reflected an in year reserves transfer will take place in the 2017/18 accounts to reflect the movement.

## **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 2017/18. 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	
			£	%
2014/15	542,401	520,084	-22,317	4%
2015/16	550,083	509,970	-40,113	7%
2016/17	550,243	524,617	-25,626	5%

There is no change proposed for 2017/18

**ii. GMS Enhanced Services**

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

Year	Accrual Value	Actual Expenditure	Variances	
			£	%
2014/15	527,082	527,351	269	-
2015/16	396,735	492,605	95,870	24%
2016/17	349,575	408,718	59,143	17%

Whilst these percentages appear to be high this should be set in the context of the total cost of GMS Enhanced Services which amounted to £6m in 2016/17.

Welsh Government has introduced a number of direct enhanced services in 2017/18. Some of these services were introduced with effect from 1<sup>st</sup> April and the existing methodology for calculation will result in appropriate accruals. However, for two schemes that were introduced in October 2017, an alternative accrual methodology will be required with the proposed approach set out below.

For the Diabetes direct enhanced service, the proposed approach is to calculate the total liability owing to GP practices as at 31<sup>st</sup> March 2018 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, adjusted for the 6 month period October 2017 to March 2018.

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 31<sup>st</sup> March. 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 journals being input, to ensure that no scheme is overlooked. Apart from the two new enhanced services detailed above, no other changes are proposed for 2017/18.

### 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	
			£	%
2014/15	2,317,964	2,436,058	118,094	5%
2015/16	2,210,384	2,226,320	15,935	1%
2016/17	2,327,541	2,183,985	-143,556	6%

Points to note for this year's formula:

- There has been no change to the maximum number of points at 567 for 2017/18, however, as in 2016/17 there has recently been an announcement regarding the relaxation of QOF for this financial year. This aims to free up more capacity for GPs and practice nurses to manage their most vulnerable and chronically sick patients during the winter period where there is a significant increase in demand for their services. This is in addition to the nationally negotiated agreement that a number of points would be for "inactivated" elements of the framework which no longer require formal submission of data to health boards to count towards the overall level of achievement.

Of the 567 total QOF points, GP practices will be able to opt out of over 75 % of the total points. The only elements of QOF which practices will be not be able to opt out of during the period to 31 March 2018 are the two Influenza indicators and the cluster network domain indicators.

The intention is to ensure that no GP practice loses out financially as a result of QOF relaxation up to 31 March 2018. Accordingly, for each indicator the practice elects to opt out of, the achievement for 2017/18 will be compared with the 2016/17 achievement for the relevant indicator and the Health Board will make a payment to the practice at the higher of the two levels of achievement. This will be set out in the revised legal Directions.

Whilst the deadline to inform the Health Board of the indicators they wish to opt out of is 1<sup>st</sup> March 2018, the outcomes will not be known until June 2018 in terms of the achievement payments actually made. Therefore, an accrual methodology is needed which reflects the change made this year.

The Health Board has assessed that if all practices achieved the maximum points, overall QOF points would need to increase by around 1.5%. Whilst not all

practices will achieve maximum points, it is estimated that around 50% of practices could benefit from the relaxation of QOF. Therefore it is proposed to increase outturn QOF points by 1% and the financial impact is estimated to be less than £60k. In addition one GP practice that received a QOF payment in 2016/17 has subsequently ended their contract with the health board. Patient care is now delivered through the health board's own managed practice and accordingly no payment will be owed in 2017/18. This reduces the value of the accrual by £51k.

- Inflation of 2.43% has been calculated by Welsh Government for QOF for 2017/18 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 2016/17 are set out below:

#### Accrual Formula for 2016/17

2015/16 points achieved (capped at a maximum of 567 points) plus 1.5% (to recognise the potential impact of the relaxation of QOF)	X	2015/16 £ per point Uplifted by 2.23%
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#### 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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#### 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	
	£	£	£	%
2014/15	4,366,445	4,274,221	-92,224	2%
2015/16	4,495,846	4,645,399	149,553	3%
2016/17	4,638,140	4,689,285	51,145	1%

Whilst no changes are proposed for the approach to calculating the accruals for 2017/18, the contract price per item is likely to be increased before 31<sup>st</sup> March 2018 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	
	£	£	£	%
2014/15	15,106,018	15,274,155	+168,137	1%
2015/16	15,188,176	15,395,554	+207,378	1%
2016/17	15,022,506	15,372,822	+350,316	2%

There are no changes proposed for 2017/18, however, given the huge fluctuations experienced in 2017/18 in No Cheaper Stock Options (NCSO) for a number of drugs, 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 2018 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 15<sup>th</sup> 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 16<sup>th</sup> 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 1<sup>st</sup> April 2003 to 31<sup>st</sup> July 2013 (Phase 3). Claimants needed to register their intent to claim by 31<sup>st</sup> July 2014, and no later than 31<sup>st</sup> December 2014 (later extended by Welsh Government to 31<sup>st</sup> 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.

Further annual publicity campaigns have resulted in the ability to claim for periods post July 2013. As at 31<sup>st</sup> March 2018, there will therefore be claims in existence for phases 4, 5 and 6.

## **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 2016/17, it is proposed to continue to use local success rates and average weekly reimbursed rates at at 31<sup>st</sup> March 2018.

## **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.

For 2017/18, however, significant progress has been made in settling claims to allow a provision to be reliably estimated for these claims. The principles agreed with WAO and Welsh Government are that a provision will be required where health boards have at least 25% of phase 3 cases settled at year end. It was further agreed that there would be no standard formula for calculation of the provision with the calculation methodology to be determined locally. For ABMU it is proposed to follow the same methodology as for phase 2 claims utilising the average weekly rate

reimbursed at 31<sup>st</sup> March 2017/18 and the local success factors. It was further agreed that provisions for phase 3 claims will be AME funded by Welsh Government in 2017/18.

The table below sets out the position provided by Powys Health Board for phase 3 cases across NHS Wales as at 31/10/18:

<b>Health Board</b>	<b>No. of cases already completed</b>	<b>No. of cases remaining to be completed</b>	<b>Anticipated No. that will be completed by 31/03/18</b>
ABM	74	146	105
AB	126	144	148
BCU	83	130	110
C & V	100	168	121
CT	70	101	87
HD	89	119	112
Powys	23	32	33
<b>Total</b>	<b>565</b>	<b>840</b>	<b>716</b>

#### **iv. Accruals Methodology (Phases 4 to 6)**

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 and 6 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 and 6 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 2017. This directs health boards to use 0.10% this year (0.24% 2016/17) which will be a hit of £0.097m 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:

<b>Probability of Success of Claim</b>	<b>Accounting Treatment</b>
<b>Certain 95-100% Success</b>	<b><i>Defence Fee Provision at 100% of cost advised by Welsh Health Legal Services on their quantum reports</i></b>
<b>Probable 50- 95% Success.</b>	<b><i>Defence Fee Provision at 100% of cost advised by Welsh Health Legal Services on their quantum reports</i></b>
<b>Possible 6-49% Success</b>	<b><i>Defence Fee Provision Required – Provision to be based on the Welsh Health Legal Services quantum reports</i></b> - 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.
<b>Remote 0- 5% success</b>	<b><i>No provision or contingent liability required</i></b>

In 2016/17 the Health Board provided on the basis outlined in the table above with the percentages used to provide for probability 3 cases being 8.41% for Clinical Negligence cases and 40.44% 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 9.68% for Clinical Negligence cases and 35.82% for Personal Injury cases. Based on the 3<sup>rd</sup> quarter quantum reports from Welsh Health Legal Services this has resulted in an increase in the provision of £0.037m.

## **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 2018.

## **F. FUNDED NURSING CARE (FNC)**

Final agreement is close to being achieved on the proposals around a revised FNC rate in line with the findings of the Supreme Court. Technical discussions are planned on an All Wales basis with Wales Audit Office in mid March with the expectation being that the additional costs associated with the Supreme Court judgement will be treated as an accrual in the 2017/18 accounts. Templates are currently being developed by the FNC Steering group for completion to ensure that these accruals are calculated on a consistent basis across Wales.

Initial calculations of the liability for ABMU based on the number of FNC patients since 2014/15 amount to £3.444m comprising £0.780m for 2017/18 and £2.664m for the back dated element from 2014/15 to 2016/17. Detailed calculations are being undertaken to confirm these values.

At the FNC Steering Group Meeting on 14<sup>th</sup> February Welsh Government agreed to provide funding for the retrospective liability for health boards from 2014/15 to 2016/17 through a resource only adjustment as cash payments are unlikely to be made until 2018/19.

## **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 2017/18;
- 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.
- h) the proposed accounting treatment and funding arrangements for the Supreme Court ruling regarding FNC rates.