

Annual Accounts 2022-23

Audit and Corporate Governance Committee

10 May 2023



GIG
CYMRU
NHS
WALES

Iechyd Cyhoeddus
Cymru
Public Health
Wales

Annual Accounts 2022-23

Outline of Presentation

- Status of Accounts & Audit
- Performance of Key Targets
- Key items to note
- 2021-22 audit findings addressed
- Next steps and key dates
- Any questions?

Annual Accounts 2022-23

Status of Accounts & Audit

□ Early Audit Work

- Planning work commenced February 2023. Small amount of testing of fixed asset additions.
- Pre-planning meetings to discuss updates and specific technical updates (IFRS 16 Leases)
- Audit to date has been virtual with the use of Microsoft Teams – access set up for whole audit team

□ Current status

- Draft accounts submitted to Welsh Government and Audit Wales 5 May 2023 per timetable
- Several notes and working papers shared with Audit Wales from w/c 9 May
- Extended 1 week deadline has enabled additional review to take place by PHW Finance Team

□ Final Audit Work

- Final audit commenced Tuesday 9 May 2023 (with Audit Wales likely to be on site for some of the audit)
- Due to finish around 7 July 2023 at the request of PHW
- Deadline for submission of audited and approved accounts 31 July 2023 (last year's deadline 15 June 2022)

Annual Accounts 2022-23

Performance of Key Targets

☐ Statutory Financial Duties

- Reported a surplus of £85k (after adjusting for donated asset £0.674m and free of charge goods income of £0.136m – see note 2.1.1 of accounts), with hosted organisations breaking even
- Financial duty to breakeven over the 3 years 2020-21 to 2022-23 has been met
- The 2022-23 to 2024-25 IMTP was approved by the Minister for Health and Social Services on 13 July 2022. PHW has met its statutory duty to have an approved financial plan

☐ Administrative Duties

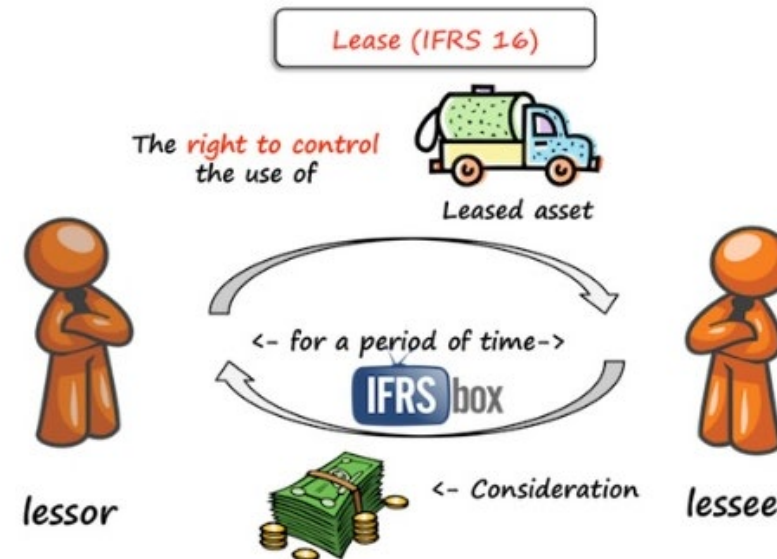
- The requirement to achieve the External Financing Target has been suspended for 2022-23 as requested by Welsh Government
- Public Sector Payment Policy – achieved 96.4% against a target of 95.0%

Annual Accounts 2022-23

Key Items to Note

Implementation of IFRS 16 Leases

- ❑ New International Financial Reporting Standard (IFRS) IFRS 16 Leases implemented during 2022-23
- ❑ This was due to be implemented in 2019-20, delayed for NHS Wales as a result of the Pandemic
- ❑ IFRS 16 has been brought in to try and reflect the full substance of assets and liabilities of leased items



Annual Accounts 2022-23

Lease Accounting - What has changed?

- PHW leases were previously funded by Welsh Government allocation (**Revenue**)
- The expenditure recognised in the accounts was the annual lease payment to the supplier



- Under IFRS 16 we have moved the majority of leases onto the Balance Sheet (similar to fixed assets)
- A Right Of Use Asset will be created (to represent the item we are leasing)
- The asset will be funded by Welsh Government with **Capital** funding and will be depreciated like the assets we own
- A corresponding liability will be created which reflects the future lease payments due for the term of the contract

Annual Accounts 2022-23

Key Items to Note

Implementation of IFRS 16 Leases

- ❑ £9.546m transition of right of use assets and associated liabilities onto the balance sheet at 1 April 2022
- ❑ Right of Use Asset additions totalled £0.823m which is predominantly the new lease for Kimberley House totalling £0.804m along with £0.019m for new equipment leases
- ❑ Net book value of Right of Use Assets at 31 March 2023 is £8.639m with associated liabilities which broadly offset this figure
- ❑ Previously these leases were accounted for 'off balance sheet' through revenue
- ❑ Leases identified include leased property and equipment provided under contracts
- ❑ New notes not previously reported in for PHW include; Note 13.3 Right of Use Assets, Note 8 Finance Costs, Note 21 Borrowings, Note 27 Right of Use/Finance Lease Obligations and new references in existing notes and primary statements

Annual Accounts 2022-23

Key Items to Note (cont.)

Revaluation

- NHS Wales have undergone a formal five yearly revaluation exercise, carried out by the Valuation Office. This revaluation was applied to land and buildings with effect from 1 April 2022.
- The revaluation is reflected in note 13.1 Property, Plant and Equipment, 13.3 Right of Use Assets and 5.1 Operating Expenditure and additional references in income and impairments.
- The net impact is a downward revaluation of £1.447m with £1.235m being charged to expenditure (funded by Welsh Government) and £0.212m being taken to the Revaluation Reserve.
- The downward revaluation largely related to the fit out works of the laboratory at IP5 which was constructed during the height of the pandemic.

Annual Accounts 2022-23

Key Items to Note (cont.)

- ❑ **Income** has decreased by £28.526m (11%)
- ❑ Total Patient Care and Operating Revenue (total of notes 3 and 4), shows a year on year decrease of £28.526m. This decrease is largely due to the following changes in income from Welsh Government:
 - Reduction in Covid-19 funding of £52.082m
 - An increase in core income of £9.940m
 - Additional pay award funding of £6.942m
 - An increase in additional Welsh Government income of £5.368m covering the following areas:
 - Obesity (Diabetes and Targeted Children and Families Intervention)
 - Early Years Prevention
 - Online STI testing
 - Screening recovery

Annual Accounts 2022-23

Key Items to Note (cont.)

- ❑ **Operating expenditure** has decreased year on year by £28.036m. Significant year on year changes are due to the following reasons:
 - Decrease in clinical supplies and services of £42.677m due to a reduction in Covid testing;
 - Staff cost increase of £7.121m as a result of pay awards
 - Increase in general supplies and services of £2.971m. This largely due to an increase in Voluntary Hospice Funding within the NHS Wales Collaborative totaling £2.085m. In addition, there has been an increase of expenditure within Improvement Cymru of £0.689m relating to Patient Safety and Harm Reduction improvement project.
 - Increase in depreciation costs of £2.227m due to Right of Use Asset depreciation as a result of IFRS 16 Leases implementation and other asset additions
 - Increase in Establishment costs of £1.705m. This is mainly due to a number of expenditure items returning to pre-pandemic levels, for example travel and subsistence, conferences and seminars. In addition, there have been increased postage costs to support Screening recovery.

Annual Accounts 2022-23

Key Items to Note (cont.)

Service transfers

During 2022-23, there have been service transfers which have had a financial impact on the Trust. These include:

- Transfer of Laboratory Information Network Cymru (LINC) and Radiology Information System Procurement (RISP) programmes from the NHS Wales Health Collaborative to Digital Health & Care Wales. These programmes transferred with effect from 1st January 2023. The cost of assets transferred were £3.447m and £0.191m respectively. The decrease in Intangible Assets can be seen in Note 14.
- Transfer of Local Public Health Teams from Public Health Wales to their respective Health Boards. This transfer took effect on 1st October 2022. The part year effect on PHW core income was a reduction of £5.243m and going forward, the full year effect will be a reduction of £9.074m of core income.

Annual Accounts 2022-23

2021-22 Audit Findings Addressed

| 2021-22 audit issues raised | 2022-23 corrective action |
|--|---|
| Remuneration and staff report Updating of disclosures to accurately reflect salary levels, benefits in kind, adjustments for periods of parental leave and pension benefits. | Salaries have been confirmed to contracts/letters and benefit in kind calculations have been checked to the method recommended last year. |
| SoCITE Adjustment to the Public Dividend Capital values in the SoCITE to agree with the independent notification from Welsh Government. | Full reconciliation carried out of PDC reported in SoCITE to Welsh Government issued Capital Expenditure Limit papers. |
| Note 3 and 4 Revenue Reclassification of certain Welsh Government income to Note 3 from Note 4. This should be amended so that the full year's income is correctly included in Note 3. | Income has been categorised in accordance with last year's conventions to ensure year on year consistency. |

Annual Accounts 2022-23

2021-22 Audit Findings Addressed cont.

| 2021-22 audit issues raised | 2022-23 corrective action |
|---|--|
| <p>Note 10.6 Remuneration Relationship Narrative adjustments have been made in relation to add 2020-21 comparatives for new disclosures; and to clarify that the Chief Executive is the highest paid director, and therefore that only one table has been populated. The calculation of the salary of the lowest paid employee disclosed in the note has been adjusted to more accurately reflect the pay of agency staff.</p> | <p>Narrative disclosures are consistent with those provided in 2021-22 final accounts.</p> <p>The calculation of agency remuneration has undergone a minor adjustment to more accurately reflect the pay of agency staff. In addition, narrative has been provided to explain the lowest paid employees.</p> |
| <p>Note 17 Trade and Other Receivables Removal of amounts included as a prepayment which had not been paid before the year end.</p> | <p>Balance sheet guidance session delivered to the Finance Division prior to year end, highlighting when to recognise prepayments and specific balance sheet review included in the year end closedown plan to review.</p> |
| <p>Note 33 Related Party Transactions Additional transactions included for two related parties.</p> | <p>Guidance was strengthened to ensure declarations are re-declared each financial year. This has reduced the risk of omitting related party transactions in the accounts.</p> |

Annual Accounts 2022-23

2021-22 Audit Findings Addressed cont.

| 2021-22 audit issues raised | 2022-23 corrective action |
|---|--|
| <p>Note 18 Trade and Other Payables Errors identified in testing of non-NHS payables and accruals resulting in a reduction of £0.366m.</p> | <p>Significant work throughout the year has taken place with workshops for the Finance Division and Business Leads on accruals accounting. Grants templates have been updated to make clearer the financial year to which the grant relates to. Calculation methods for Microbiology maintenance contract accruals have been improved during the year. Specific tasks to review accruals have been added to the year end closedown plan.</p> |
| <p>Note 25 Capital Commitments Inclusion of a capital commitment which had not been originally identified.</p> | <p>It is unusual for PHW to have capital commitments spanning financial years. 2021-22 was an anomaly due to the 2-year programme to replace Breast test Wales mammography kits. Discussions have been had with key managers with capital projects to confirm there are no ongoing commitments.</p> |

Annual Accounts 2022-23

Next steps and key dates

- External Audit work commenced 9 May 2023
- Draft Performance Report Overview, Accountability Report (including the Annual Governance Statement), and Draft Remuneration Report be submitted to Welsh Government and Audit Wales by Friday 12 May 2023
- Audit and Corporate Governance Committee TBC (likely mid-July 2023)
- Board Meeting 27 July 2023
- Final Annual Report and Accounts to be submitted by Audit Wales to Welsh Government by 31 July 2023, as a single unified PDF document

Annual Accounts 2022-23

Any questions?

Please feel free to submit questions following the meeting to jane.matthews3@wales.nhs.uk