

PWYLLGOR ADNODDAU CYNALIADWY SUSTAINABLE RESOURCES COMMITTEE

DYDDIAD Y CYFARFOD: DATE OF MEETING:	25 April 2022
TEITL YR ADRODDIAD: TITLE OF REPORT:	Update on All-Wales Capital Programme – 2021/22 Capital Resource Limit and Capital Financial Management
CYFARWYDDWR ARWEINIOL: LEAD DIRECTOR:	Huw Thomas, Director of Finance
SWYDDOG ADRODD: REPORTING OFFICER:	Huw Thomas, Director of Finance

**Pwrpas yr Adroddiad (dewiswch fel yn addas)
Purpose of the Report (select as appropriate)**

Er Gwybodaeth/For Information

ADRODDIAD SCAA SBAR REPORT

Sefyllfa / Situation

This update report is presented to the Sustainable Resources Committee to:

- Note the Capital Resource Limit (CRL) for 2021/22
- Note the CRL for 2022/23
- Note the project updates
- Note the risks being managed
- Note the updates on Project Bank Accounts (PBA) and the implementation of International Financial Reporting Standard (IFRS) 16.

Cefndir / Background

This report provides the unaudited outturn position on the CRL for 2021/22 and opening position for 2022/23.

Asesiad / Assessment

Capital Resource Limit 2021/22

The final CRL for 2021/22 was issued with the following allocations:

Allocation	£m
All Wales Capital Programme (AWCP)	53.862
Discretionary Capital Programme (DCP)	7.251
Sales receipts	0.553
Total	61.666

Adjustments to the CRL

The following adjustments have been made to the CRL since the last report:

Capital Scheme	Adjustment £m	Explanation
CRL as reported in February	60.324	
Additions to the CRL:		
Eye Care Equipment	0.203	Funding towards Eye Care Equipment as agreed by the Digital Eye Care All Wales Board.
Digital Priorities Investment Fund (DPIF)	0.097	Funding towards Blood Track Kiosks
DPIF	0.034	Lung function integration software licences
Imaging Equipment	0.646	Replacement portable x-ray machines
Additional End Of Year Capital Funding	0.350	Additional funding provided towards replacement PCs and laptops
Laundry transfer	(0.092)	This represents the value of laundry assets which were transferred to NHS Wales Shared Services Partnership (NWSSP). This is offset by the recognition of sales proceeds (nil impact on Health Board)
Other adjustments:		
Disposal proceeds	0.092	Recognition of sales proceeds for transfer of laundry equipment.
Disposal proceeds	0.012	Disposal proceeds from equipment
Latest CRL	61.666	

In addition to the resource allocated through the CRL and the net book value of disposals, the Health Board is able to make capital purchases through donations.

Allocation	£m
All Wales Capital Programme (AWCP)	53.862
Discretionary Capital Programme (DCP)	7.251
Sales receipts	0.553
Donated and Granted Purchases	1.073
Total Resource Available	62.739

Against this resource, the unaudited expenditure position for the year is £62.677m; an underspend of £0.062m.

The un-audited Capital expenditure position for 2021/22 is detailed in the table below.

Scheme	£m
AWCP	
Women and Children Phase II	2.961
MRI Withybush General Hospital (WGH)	2.626
Cross Hands Primary Care Scheme	0.371
Fire Prevention Works Glangwili General Hospital (GGH)	0.712
WGH Fire Compliance Works	4.727
National Programmes – Estates Funding Advisory Board	4.444
National Programmes - Imaging	3.923
GGH Fire Enforcement Works	0.990
COVID-19 Recovery 2021-22	4.824
Invest to Save Multi Site project	0.460
Ultrasounds and Image intensifiers	1.398
Two replacement CT Scanners and Digital Radiography Rooms	3.163
Additional EOY Capital Funding	3.221
Modular Theatre Facility at Prince Philip Hospital	18.038
Additional Imaging Equipment	0.646
DPIF - additional capital	1.428
Other AWCP	1.428
Sub-total AWCP	55.360
Discretionary/receipts	
Estates - Statutory	0.727
IT	1.651
Equipment	1.940
Estates Infrastructure	1.373
Other	0.553
Sub-total Discretionary	6.244
TOTAL	61.604
Donated and Granted Purchases	1.073
Gross Capital Expenditure	62.677

To achieve the outturn position, £29.6m of spend was incurred in March 2022.

There are a number of reasons for this:

- Estates schemes were expected to complete in March 2022 as a result of the tender timescales following Welsh Government (WG) approval of funding.
- Delivery timelines from suppliers in terms of Medical and Digital Equipment. 2021/22 has evidenced that delivery timelines have increased due to Brexit and supply chain availability, therefore this will need to be considered prior to the acceptance of any additional funding from WG in this and subsequent financial years.

- Planned vesting of equipment due to a requirement to ensure supply chain availability (imaging equipment and Pharmacy robots). The enabling works for the installation of these items of equipment are scheduled for 2022/23.

The Finance department will work in collaboration with Estates, IT, Planning and Procurement to identify ways of smoothing the spend profile for 2022/23.

The revenue implications of these allocations are detailed at Appendix 1.

Department of Health Donated Equipment

The Department of Health has transferred 17 patient monitors and a mobile CT scanner to the Health Board in 2021/22, as part of the response to the COVID-19 pandemic.

The total net book value of these assets was £0.821m and is included in the “donated and granted assets” detailed above.

Capital Resource Limit 2022/23

The CRL for 2022/23 has been issued with the following allocations

Expenditure	£m
All Wales Capital Programme	26.203
Discretionary Programme	5.645
Total	31.848

A detailed breakdown of the All Wales Capital Programme (AWCP) is provided below:

Allocation	£m
Withybush Hospital (WGH) Fire Enforcement Works	8.372
Glangwili Hospital (GGH) Fire Enforcement Works	6.940
Imaging – Fluoroscopy Rooms and CT Scanner replacements,	6.972
Prince Phillip Hospital (PPH) Modular Build	2.147
Women & Children Phase II	0.806
Solar Farm	0.593
Invest to Save – Multi site projects	0.373
Total	26.203

Financial Risks associated with Capital Schemes

Women & Children Phase II (GGH)

There is an estimated additional cost implication for the scheme of £1.526m due to the implementation of social distancing legislation as a consequence of COVID-19. Total costs agreed to date with the Supply Chain Partner are £0.524m. Following a review of these costs, undertaken by NWSSP-Estates, they have agreed that they are reasonable and have advised WG. WG have confirmed that their policy is to fund COVID-19 related costs. The total quantum of additional COVID-19 costs will be reviewed in light of the amended WG social-distancing legislation, and it is expected that these additional costs will reduce.

WGH and GGH Fire Precaution Works

The form of contract for this scheme is a “cost-plus” contract, which together with the high degree of uncertainty involved in the works required to comply with fire regulations means that forecasting of costs will pose a challenge as the scheme progresses, and will require close working with the HB’s Cost Adviser and Project Manager.

Capital Scheme Updates (Schemes greater than £1m)

Women & Children Phase II

The most recent programme for the remainder of the project (phases 3 and 4) submitted by the Supply Chain Partner (SCP), Tilbury Douglas, forecasts a completion date of June 2023. Phase 3 of the programme is due to commence in April 2022.

Imaging Programmes

Enabling works will commence on the installation of replacement CT scanners at Bronglais General Hospital (BGH) and PPH in addition to the replacement of equipment in fluoroscopy rooms. Both CT Scanners are currently held in bonded storage.

WGH Fire Compliance Work

Work for Phase 1 commenced on site in June 2021 and is progressing. The extent of work required regarding over-boarding is expected to be greater than envisaged in the original programme and, together with the challenge of working in a live hospital environment, is expected to result in delay to the completion date. However, a revised programme has not yet been accepted by the Project Manager. The Business Case for the next phase of works (Phase 2) is currently being prepared.

GGH Fire Compliance Work

The Business Case for Phase 1 of the Fire Compliance Work at GGH was approved in November 2021 and work commenced on site in January 2022.

PPH Modular Build

Progress against the planned programme has been maintained and the Modular Theatres are expected to be available for use from mid-May 2022.

Project Bank Accounts

The WGH Fire Precaution Works is the Health Board’s first AWCP funded scheme for which payments to the SCP are required to be made through a PBA. The proposed account offered by the SCP’s banker does not satisfy the requirements of a PBA as set out by WG. The Health Board has been liaising with the SCP’s banker to try and resolve this issue; however, the bank is unable to change the wording on their proposed PBA. Consequently, the Health Board has recommended that the SCP utilise an alternative PBA, which meets the necessary criteria. The Health Board has ensured that WG are kept fully informed with regards to the status of the PBA.

Implementation of International Financial Reporting Standard (IFRS) 16

Accounting standard IFRS 16 – Leases has been implemented across NHS Wales from 1st April 2022, resulting in the majority of leased assets moving on to the Health Board’s balance sheet.

The table below illustrates the total value of assets to be brought on to the balance sheet on 1st April 2022 with forecasts for new and lease renewals for 2022/23, 2023/24 and 2024/25.

	Assets at 1/4/2022 £m	Additions FY 2022/23 £m	Additions FY 2023/24 £m	Additions FY 2024/25 £m
Property leases	9.4	0.4	0.8	0.0
Non property leases	3.7	2.8	0.4	0.2
Total	13.1	3.2	1.2	0.2

The accounting mechanism to bring current leases onto the balance sheet on 1st April 2022 will be via an adjustment to Taxpayers' Equity; for leased additions after implementation, capital funding will need to be requested from WG. The process for this as outlined by WG is that a quarterly return of new leases and renewals will be submitted by health boards. Any new leases entailing assets valued at £0.5m or greater will be required to demonstrate value for money and will require approval by the WG Capital Estates and Facilities Team. There may be a requirement to complete additional documentation such as a Business Justification Case for these leases.

Currently, all leased asset payments are expensed though revenue. Under IFRS 16, the accounting entries made when the asset is capitalised results in the creation of the liability equal to the value of the asset. Consequently, lease payments within the scope of IFRS 16 are split between repayment of the liability (a balance sheet accounting entry) and an interest charge on the outstanding liability (a revenue charge). In addition, a depreciation charge is applied to the asset in line with other purchased assets. As a result, the charges to revenue accounts will vary from the amounts charged if the standard had not been introduced. The table below compares charges to revenue under IFRS 16 with how they would have appeared under the previous accounting standard (International Accounting Standard (IAS) 17):

Table 2 – Comparison of revenue charges IFRS 16 v IAS 17

	FY 2022/23 £m	FY 2023/24 £m	FY 2024/25 £m
<i>IFRS 16 – interest charge</i>	0.1	0.1	0.1
<i>IFRS 16 – depreciation on leased assets</i>	2.1	2.2	2.2
IFRS 16 total revenue charges	2.2	2.3	2.3
Revenue charges under IAS 17	2.5	2.6	2.6
Difference	-0.3	-0.3	-0.3

WG have confirmed that, in order for the implementation to have a neutral impact on revenue accounts, an adjustment will be made to health boards' revenue allocations to effect this.

Argymhelliad / Recommendation

The Sustainable Resources Committee is requested to:

- Note the 2021/22 Capital Resource Limit and unaudited out-turn position
- Note the Capital Resource Limit for 2022/23
- Note the project updates
- Note the risks being managed
- Note the updates on Project Bank Accounts and the Implementation of IFRS 16.

Amcanion: (rhaid cwblhau) Objectives: (must be completed)	
Committee ToR Reference: Cyfeirnod Cylch Gorchwyl y Pwyllgor:	3.1 Undertake detailed scrutiny of the organisation's overall: <ul style="list-style-type: none"> • Monthly, quarterly and year-to-date financial performance; • Performance against the Savings Delivery and the Cost Improvement Programme providing assurance on performance against the Capital Resource Limit and cash flow forecasts. 3.6 Receive assurances in respect of Directorate performance against annual budgets, capital plans and the Cost Improvement Programme and innovation and productivity plans.
Cyfeirnod Cofrestr Risg Datix a Sgôr Cyfredol: Datix Risk Register Reference and Score:	Risk 624 (score 20) – Risk to the ability to maintain and address backlog maintenance and develop infrastructure to support long term strategic objectives
Safon(au) Gofal ac Iechyd: Health and Care Standard(s):	All Health & Care Standards Apply
Amcanion Strategol y BIP: UHB Strategic Objectives:	4. Improve the productivity and quality of our services using the principles of prudent health care and the opportunities to innovate and work with partners. 5. Deliver, as a minimum requirement, outcome and delivery framework work targets and specifically eliminate the need for unnecessary travel & waiting times, as well as return the organisation to a sound financial footing over the lifetime of this plan
Amcanion Llesiant BIP: UHB Well-being Objectives: Hyperlink to HDdUHB Well-being Objectives Annual Report 2018-2019	9. All HDdUHB Well-being Objectives apply

Gwybodaeth Ychwanegol: Further Information:	
Ar sail tystiolaeth: Evidence Base:	Capital Allocation and prioritisation process. Capital Investment procedure and all relevant Welsh Government guidance.
Rhestr Termiau: Glossary of Terms:	Explanation of terms is included in the main body of the report.
Partïon / Pwyllgorau â ymgynhorwyd ymlaen llaw y Pwyllgor Adnoddau Cynaliadwy:	Capital Monitoring Forum Capital Planning Group Individual Project Boards of Capital Schemes

Parties / Committees consulted prior to Sustainable Resources Committee:	Welsh Government Capital Review Meeting Capital Sub-Committee
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Effaith: (rhaid cwblhau) Impact: (must be completed)	
Ariannol / Gwerth am Arian: Financial / Service:	Capital values noted within the report. Included within individual business cases and Capital prioritisation process.
Ansawdd / Gofal Claf: Quality / Patient Care:	Included within individual business cases and Capital prioritisation process
Gweithlu: Workforce:	Included within individual business cases and Capital prioritisation process
Risg: Risk:	Risk assessment process is integral to the capital prioritisation process and the management of capital planning within HDdUHB
Cyfreithiol: Legal:	Included within individual business cases and Capital prioritisation process
Enw Da: Reputational:	Included within individual business cases and Capital prioritisation process
Gyfrinachedd: Privacy:	Included within individual business cases and Capital prioritisation process
Cydraddoldeb: Equality:	Equality assessments are included within individual business cases and Capital prioritisation process when required

Appendix 1 – revenue consequences of capital schemes

The below table summarises the revenue consequences of capital schemes of which funding was received in 2021/22 (all figures £m):

Scheme	Total	Additional	Costs included in current budgets (replacement)
AWCP			
Women and Children Phase II	0.53	0.53	0.00
MRI Withybush General Hospital	0.15	0.05	0.10
Cross Hands Primary Care Scheme	Revenue costs being revisited as part of business case re-submission to WG.		
Fire Prevention Works Glangwili General Hospital (GGH)	0.00	0.00	0.00
WGH Fire Compliance Works	Business Case assumed no additional costs		
National Programmes – Estates Funding Advisory Board	0.00	0.00	0.00
National Programmes - Imaging	0.17	0.09	0.08
GGH Fire Enforcement Works	Business Case assumed no additional costs		
COVID-19 Recovery 2021-22	0.37	0.13	0.24
Invest to Save Multi Site project	0.00	0.00	0.00
Ultrasounds and Image intensifiers	0.14	0.00	0.14
Two replacement CT Scanners and DR Rooms	0.27	0.00	0.27
Additional EOY Capital Funding	0.32	0.00	0.32
Modular Theatre Facility at Prince Philip Hospital	Costs developed as a part of Health Board's recovery plans		
Additional Imaging Equipment	0.06	0.00	0.06
DPIF - additional capital	0.10	0.10	0.00
Other AWCP	0.05	0.05	0.00
Sub-total AWCP	2.16	0.95	1.21
Discretionary/receipts			
Estates - Statutory	0.00	0.00	0.00
IT	0.00	0.00	0.00
Equipment	0.19	0.00	0.19
Estates Infrastructure	0.00	0.00	0.00
Other	0.00	0.00	0.00
Sub-total Discretionary	0.19	0.00	0.19
TOTAL	2.35	0.95	1.40

The above table shows the total revenue costs as a consequence of capital expenditure in 2021/22 as £2.35m. Total additional costs are estimated at £0.95m and costs assumed to be included in current revenue budgets as they are equipment replacements totals £1.4m

Assumptions made

- Medical Equipment replacement assumed at 10% of capital cost.
- Any Estates work to existing buildings are assumed to be revenue neutral, unless the building footprint increases or changes significantly.
- Some capital investment will lead to longer term revenue savings (such as decarbonisation initiatives and digital investment) however it has been assumed that these will be included as a part of directorate savings plans.