GOING CONCERN STATEMENT 2016-17

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Context

Going concern is a fundamental principle in the preparation of financial statements as it provides a view to our ability to remain in operation for the foreseeable future with no necessity of liquidation or to cease operation. Financial Statements should be prepared on a going concern basis unless management intends to either liquidate the entity or cease trading, or has no realistic alternative but to do so.

The Going Concern Statement was presented to the Audit Committee on the 25th May 2016 where it was recommended for approval to the Trust Board.

Questions

1. Has an assessment been undertaken of our future prospects, taking a forward look for a minimum of 12 months?
2. Are we financially stable for the next 12 months?
3. Should our 2015-16 accounts be prepared on the going concern basis?
4. Is the Trust Board prepared to approve the Going Concern Statement?

Conclusion

1. We have assessed our future prospects for 2016/17 as reflected in the Going Concern Statement.
2. We delivered our financial plans and CIPs in 2015/16. We are financially stable for 2016/17 as a result of a positive contracting outcome for the year and underpinned by robust financial plans and strategies.
3. Our accounts should be prepared on the going concern basis and there are no plans to liquidate the entity or cease trading.
4. The Going Concern Statement can be approved by the Trust Board, as recommended by the Audit Committee on 25th May 2016.

Input Sought

We require the Trust Board to approve the Going Concern Statement.

For Reference

Edit as appropriate:

1. The following objectives were considered when preparing this report:

Safe, high quality, patient centred healthcare	Not applicable
Effective, integrated emergency care	Not applicable
Consistently meeting national access standards	Not applicable
Integrated care in partnership with others	Not applicable
Enhanced delivery in research, innovation & ed’	Not applicable
A caring, professional, engaged workforce	Not applicable
Clinically sustainable services with excellent facilities	Not applicable
Financially sustainable NHS organisation	Yes
Enabled by excellent IM&T	Not applicable

2. This matter relates to the following governance initiatives:

Organisational Risk Register	No
Board Assurance Framework	No

3. Related Patient and Public Involvement actions taken, or to be taken: None

4. Results of any Equality Impact Assessment, relating to this matter: None

5. Scheduled date for the next paper on this topic: June 2016

6. Executive Summaries should not exceed 1 page. My paper complies

7. Papers should not exceed 7 pages. My paper does not comply

APPENDIX 1

University Hospitals of Leicester NHS
NHS Trust

GOING CONCERN STATEMENT 2016-17

1. INTRODUCTION

1.1 This paper is intended to assist the Directors of the Trust in assessing our going concern position. Going concern is a fundamental principle in the preparation of financial statements as it provides a view to our ability to remain in operation for the foreseeable future with no necessity of liquidation or to cease operation. The paper is not intended to reproduce all the evidence that exists to support its conclusion, but identify what does exist and has previously been considered by the Trust Board.

2. GOING CONCERN ASSESSMENT

2.1 International Accounting Standard 1 (IAS 1) sets out the Director's responsibilities to carry out an annual assessment to satisfy themselves that it is appropriate for the financial statements to be prepared on the going concern basis. Financial Statements should be prepared on a going concern basis unless management intends to either liquidate the entity or cease trading, or has no realistic alternative but to do so.

2.2 In making such an assessment management are required to take into account all the information available about our future prospects, taking a forward look for a minimum of twelve months. The extent and nature of this assessment will be driven by the historical financial position of the organisation and the knowledge of the challenges it faces. The wider factors used by NHS Improvement (previously NHS Trust Development Authority) in its risk assessment of Trusts are:

- The quality of care provided.
- Ability to deliver against key standards.
- Financial stability.

2.3 The Trust Board receives details of risks recorded through the Board Assurance Framework informed by local risk registers held across the Trust. The key risks included in the current Board Assurance Framework as reported to the Board are set out below:

- Failure to achieve financial sustainability.
- Failure to transform the emergency care system.
- Inability to recruit; retain; develop; and motivate staff.
- Ineffective organisational transformation.
- Ineffective strategic planning and response to external influences.
- Failure to achieve FT status.
- Failure to maintain productive and effective relationships.
- Failure to achieve and sustain quality standards.
- Failure to achieve and sustain high standards of operational performance.
- Inadequate reconfiguration of buildings and services.

2.4 The Annual Governance Statement for 2015-16 will detail all significant risks brought to the attention of the Board.

3. OVERVIEW OF THE 2015-16 FINANCIAL YEAR

3.1 We experienced a very challenging financial year in 2015-16 driven by the requirement to deliver a £43.1m CIP programme set against the backdrop of an opening underlying deficit of (£37.3m). We achieved a (£34.1m) deficit against a planned deficit of (£34.1m), and the main components of our financial outturn are covered below.

3.2 Our income increased by £31.6m (3.8%) from £834.4m to £866.0m. The key components of this increase are as follows:

- MRET was rebased to 70% (£4.6m)
- NHSE growth (incl high cost drugs and devices) is paid at 70% - £3.7m
- Winter monies of £5.5m are made recurrent as these are now included in CCG allocations, with equivalent cost made recurrent.
- NHS patient care income is £8.9m above plan at year end
- The work in progress valuation at year end has increased by £3.0m.
- Activity and growth development income increased by £20.0m.

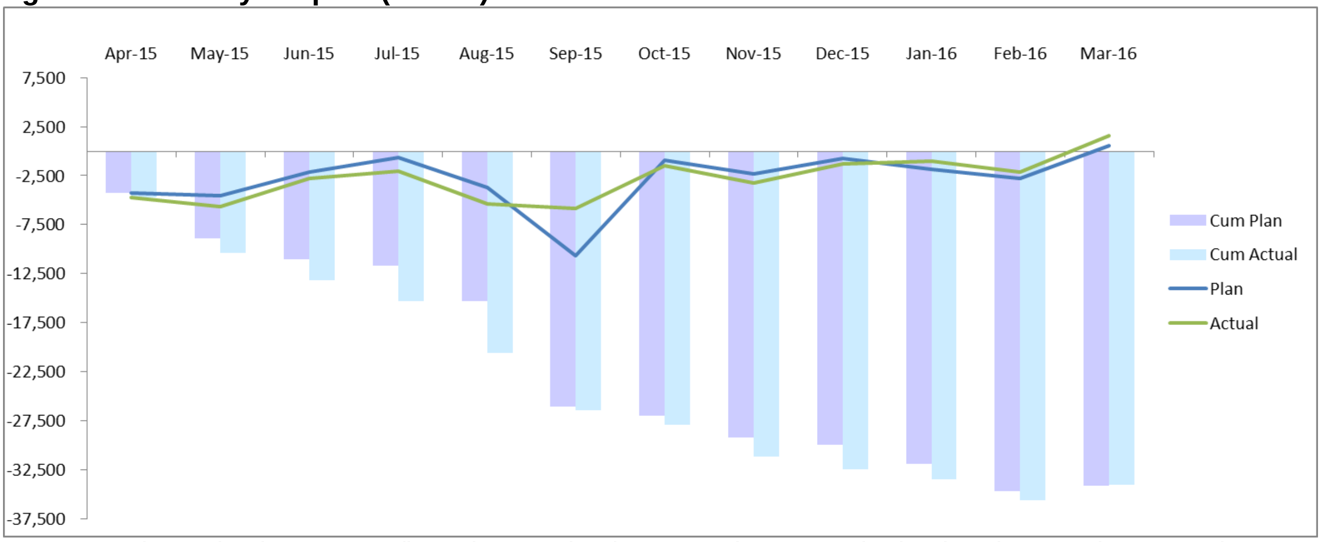
3.3 Our expenditure increased by £37.9m (8.9%) from £881.9m to £919.8m. This increase reflects:

- An increase in pay spend of £21.1m comprised of:
  - o £19.6m increase due to 397 additional WTE;
  - o £2.4m in relation to incremental drift;
  - o £2.1m in relation to AFC uplift and medical uplift; and
  - o £4.0m reduction due to shifting in skill mix.

- An increase in non-pay spend of £16.8m comprised of:
  - o £12.5m increase in drug costs of which £9.0m relate to NICE drugs;
  - o £3.9m consultancy costs to support the delivery of efficiencies and strategic planning;
  - o £19.4 impairment (2014-15 £6,761); and
  - o £1.8m reduction in depreciation.

3.4 Performance across the year has been generally consistent with our plan. Figure 1 compares the planned and actual monthly surplus/(deficit) across 2015-16 and the accuracy of these figures suggests that there are robust planning processes in place.

Figure 1 – Monthly Surplus/(Deficit) for 2015-16



Note: The revised TDA plan (blue line on chart) reflects the plan submitted to the TDA in September 2015 and therefore shows year to date adjustments being made in the month of September on the chart.

3.5 Our year-end outturn on CIPs was £43.1m compared to plan a plan of £43.0m as shown by CMG in Figure 2.

Figure 2 – CIP Outturn 2015-16

CMG	Target	Actual	Variance	% CIP Identified
CHUGGS	5,532	5,601	70	101%
CSI	4,867	5,032	165	103%
ESM	7,168	7,168	- 0	100%
ITAPS	4,123	4,203	80	102%
MSS	4,520	4,643	123	103%
RRC	6,932	6,935	3	100%
W&C	4,751	4,762	11	100%
Corporate	5,108	4,777	- 330	94%
UHL Total	**43,000**	**43,122**	**122**	**100%**

2015-16 cash outturn

3.6 We planned to reduce cash from £8.4m at the end of 2014-15 to £3.0m at the end of 2015-16, which is the minimum permitted balance required by the Secretary of State for Health as stated in our external loan agreement.

Figure 3 – Closing Cash Balance 2015-16

Balance sheet as at 2015-16 plan	Actual Opening Balance 01/04/15 £000s	Actual Closing Balance 31/03/16 £000s	Movement £000s
Cash and Cash Equivalents	8,498	3,178	(5,320)

3.7 Our actual closing cash balance was slightly higher by £178k due to the timing of receipts on the 31st March.

3.8 A consequence of our I&E deficit is that we are unable to generate sufficient cash to fund our expenditure and require external revenue cash support. We also need to secure external financing for all capital expenditure in excess of the total amount that we can generate ourselves through depreciation. The total external cash required and drawn down in the year is summarised in Figure 4:

Figure 4 - 2015-16 External Financing Summary

Financing type	New or existing	Opening value 01/04/15 £'000	Drawn down £'000	Repaid £'000	Closing value 31/03/16 £'000	2015-16 interest charge £'000
Interim capital support loan - 2014/15 schemes	Existing	12,000	0	(545)	11,455	(250)
Revolving working capital facility	New	0	32,519	(32,519)	0	(635)
Interim capital support loan - ED Floor	New	0	10,000	0	10,000	(9)
Interim revenue support loan	New	0	34,100	0	34,100	(106)
Total		**12,000**	**76,619**	**(33,064)**	**55,555**	**(1,000)**

3.9 Our opening financing consisted of a £12m interim capital support loan, and we finished the year with £55.6m of capital and revenue loans. Our Interim Revolving Working Capital Facility (IRWCF) is available for short term cash requirements and therefore this was drawn down and repaid in the year once we had received the Interim Revenue Support Loan.

4. FINANCIAL PLANS

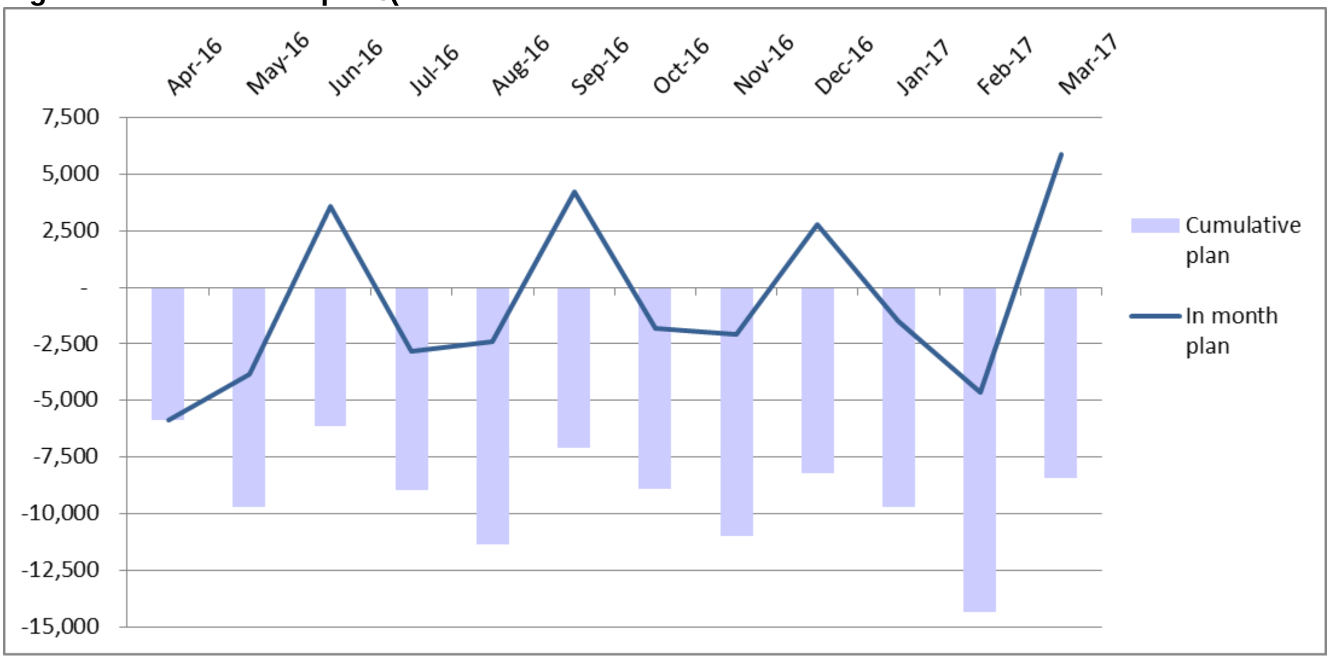
4.1 We have submitted the final version of our annual plan for 2016-17 to NHS Improvement. This includes income of £921m; operating expenditure of (£930m); and Sustainability and Transformation Funding of £23.4m; to achieve a total retained deficit of (£8.3m). There are marginal movements in income and non-operating costs. Pay has increased to £564m from £516m and non-pay has reduced from £344m to £318m, both of which reflect the transfer of estates and facilities from an outsourced service to in-house provision.

4.2 Final signed agreements are now in place with Specialised Commissioners and CCGs. The key details relating to the plan for 2016-17 are as follows:

- CIP target has reduced from £41.4m (4.2%) to £35.0m (3.6%), high risk efficiencies have reduced from 100% to 36% and unidentified efficiencies have reduced from 18% to 10%.
- Capital Programme of £108.3m predominantly as a result of the inclusion of expenditure and funding for the vascular business cases (£9.8m), ICU business cases (£15.8m) and EPR business case (£23.0m).
- An underlying recurrent deficit of £31.7m reduced to a deficit of £8.3m after the application of Sustainability and Transformation Funding of £23.4m.
- Reduction in winter monies funding to £2m.
- £4.1m insourcing of estates and facilities services.

4.3 Our planned in-month and cumulative deficit for 2016-17 is shown in Figure 5 and based on the accuracy of financial planning demonstrated in section 3.4 we are not expecting any significant variances between planned and actual values.

Figure 5 – Planned Surplus/(Deficit for 2016-17



4.4 The £23.4m of sustainability and transformation funding is received quarterly, as represented by the peaks in the above chart in June, September, December and March.

4.5 This funding brings our deficit for 2016-17 down to £8.3m and is dependent on the Trust meeting four key targets

- Cancer: 62 day pathway
- Diagnostics: 6 week wait
- RTT: 18 week pathway
- ED: 4 hour turnaround

4.6 These targets are monitored at the Integrated Finance and Performance Committee (due to their financial implications) and the Board.

4.7 Within our 2016-17 plan submitted to NHS Improvement we have included a major capital programme of £108.3m. The total CRL and cash currently available to fund this programme totals £59.8m, of which £38.1m will be funded through internally generated capital and £21.7m through external capital cash for the emergency floor scheme.

4.8 The £38.1m that we are funding internally includes £9.6m for estates and facilities schemes; £5m for IM&T schemes; £7.3m for medical equipment schemes; and £10.5m for reconfiguration schemes.

4.9 As there is £48.5m of the £108.3m programme currently unfunded, we have developed an internal operational capital plan based on the approved amounts and which allows progress to be made across all areas. We will continue to work with NHS Improvement to close the funding gap to the full £108.3m.

5 ASSESSMENT OF GOING CONCERN

5.1 For the purposes of concluding on whether it is appropriate for the Trust to prepare its accounts as a going concern there are a number of general factors that require consideration, and these are covered in this section.

Ability to generate an operating surplus

5.2 We are not planning to achieve an in-year operating surplus until 2019-20. We delivered a net surplus in each year between our inception in 2000 and 2012-13. The Trust delivered a £39.7m deficit in 2013-14; a £40.6m deficit in 2014-15; and a £34.1m deficit in 2015-16.

5.3 The Trust has a statutory duty to break even over a three year period, taking one year with another, to within 0.5% of turnover. At the end of 2015-16 the Trust has delivered a deficit for the year of £34.1m which leaves the Trust with a cumulative deficit of £109.2m (13% of turnover) meaning that we did not achieve the statutory break even duty in-year or cumulatively in 2015-16. Figure 6 shows the annual cumulative position against the break-even duty between 2011-12 and 2015-16.

Figure 6 - Performance against the Break Even duty (subject to 2015-16 accounts audit)

Breakeven performance	Actual 2011-12 £000s	Actual 2012-13 £000s	Actual 2013-14 £000s	Actual 2014-15 £000s	Actual 2015-16 £000s	Planned 2016-17 £000s
Turnover	719,154	758,665	770,393	834,376	866,036	920,690
Retained surplus/(deficit) for the year	(27,985)	1,177	(39,514)	(47,493)	(53,763)	(8,959)
Adjustments for impairments	28,073	0	0	6,761	19,432	0
Adjustments for impact of policy change re donated/government grants assets	0	(1,086)	(141)	84	280	659
Break-even in-year position	88	91	(39,655)	(40,648)	(34,051)	(8,300)
Break-even cumulative position	**5,062**	**5,153**	**(34,502)**	**(75,150)**	**(109,201)**	**(117,501)**
Break-even in-year position as a % of turnover	0.01%	0.01%	-5.14%	-4.87%	-3.93%	-0.90%
Break-even cumulative position as a % of turnover	0.70%	0.68%	-4.52%	-9.01%	-12.61%	-12.76%

5.4 The above figures (up to 2015-16) are reported in our financial statements, which are currently subject to audit finalisation. The planned deficit for 2016-17 will lead to a cumulative break-even position for 2016-17 of (£117.5m).

5.5 An implication of us not breaking even is that we are unable to generate cash to fund our deficit. The next section outlines the actions that we are taking to mitigate this risk.

Cash flow impact on net current assets and meeting liabilities as they fall due

5.6 We require a total of £29.5m external financing in 2016-17 (£61.7m less the £32.2m) as shown in Figure 7 – this includes the capital funding that is agreed at this stage:

Figure 7 - 2016-17 External Financing Summary

Financing type	Approval status	Opening value 01/04/16 £'000	To draw down in year £'000	Repayments due in year £'000	Closing value 31/03/17 £'000	2016-17 interest charge £'000
Interim capital support loan - 2014/15 schemes	Approved	11,455	0	(545)	10,910	(250)
Revolving working capital facility	Approved	0	31,700	(31,700)	0	(640)
Interim capital support loan - ED Floor	Approved	10,000	21,700	0	31,700	(470)
Interim revenue support loan	Application not yet submitted	34,100	8,300	0	42,400	(547)
Total		**55,555**	**61,700**	**(32,245)**	**85,010**	**(1,907)**

5.7 There is an additional implication in 2016-17 in that £23.4m of Sustainability and Transformation Funding is received quarterly meaning that we need to utilise our IRWCF Facility at certain points in the year. This facility is approved and allows us to draw down funds as we need them up to a current maximum of £43.7m until 2020. The £21.7m remaining loan for the ED floor has also already been approved.

5.8 All long term external financing is obtained from the Department of Health and we are required to submit detailed financing applications to the ITFF Committee for approval. We will submit a formal application for the £8.3m deficit funding later in the financial year.

5.9 We have profiled the loan drawdowns in such a way as to cover our cash requirements whilst minimising the overall level of cash held at all times. It is a requirement of our loan financing that must maintain no less than £3m of cash at all times, and also not to hold excessive cash balances. It is in our interest to only draw down cash when we need it in order to minimise interest costs. The total interest for the year in relation to our external financing equates to £1,907k.

5.10 For our working capital management to be effective we also need to have robust processes in place to manage payables and receivables in order to maintain a satisfactory level of liquidity. It is vital for any ITFF application that we can demonstrate that we are taking action to improve our own internal processes in order to maximise cash.

5.11 Figure 8 shows the ageing of NHS and Non-NHS receivables and payables as at the end of March 2016.

Figure 8 – Ageing of Payables and Receivables as at 31/03/16

Aged Receivables/Payables	Total at Period End	0-30 days		31 - 60 Days		61-90 Days		Over 90 Days	
	£000s	£000s	%	£000s	%	£000s	%	£000s	%
Receivables Non NHS	**13,837**	7,433	54	1,768	13	1,270	9	3,366	24
Receivables NHS	**18,574**	16,250	87	182	1	209	1	1,933	10
Payables Non NHS	**(37,772)**	(27,152)	72	(8,977)	24	(678)	2	(965)	3
Payables NHS	**(20,635)**	(17,891)	87	(825)	4	0	0	(1,919)	9

5.12 The NHS Improvement target is for us to have less than 5% of aged payables or receivables over 90 days. The above figures compare favourably to the prior year where the total receivables over 90 days were 26% for non-NHS and 10% for NHS; and the payables over 90 days were 19% for non-NHS and 19% for NHS.

5.13 The above improvement is partly due to restructuring of the financial services team in order to give a better strategic management of accounts payable, accounts receivable and treasury management. We also have an ongoing joint project across the Financial Services and Procurement departments focusing on streamlining and improving the procure to pay process.

5.14 We have also implemented an online card payment solution and new version of our ledger system which will improve functionality and management information within accounts receivable and accounts payable.

5.15 Sufficient liquidity therefore will exist or can be made available to support the operations of the Trust in the coming twelve months from the date of annual accounts.

Use and or breach of borrowing facilities

5.16 Our financial plans anticipate that we will need to secure temporary borrowing through our IRWCF. The IRWCF will be received from the DH and interest of 3.5% will be charged on a daily basis based on drawn amounts.

5.17 The repayment of loan capital; interest; and PDC dividends have been built into our financial plan for 2016-17. We have planned to manage our finances within the constraints of the External Financing Limit for that year.

Adverse operating conditions

5.18 The Trust continually reviews, and takes steps to develop, contingency plans to address emergencies should they arise.

Loss of key management positions

5.19 There are currently no key managerial vacancies.

Compliance with statutory requirements

5.20 As far as management are aware the Trust has complied with its statutory requirements.

Pending or on-going legal action

5.21 On-going legal action relating to insured events is managed on the Trusts behalf by the NHS Litigation Authority. All other known litigation costs have been provided for at the balance sheet date. There is no other material on-going legal action.

Potential changes in legislative or government policy

5.22 The Trust continues to review its level of risk due to the on-going developments within the NHS in respect of finance, system reform and the application of statutory legislation. Whilst it is considered that there are significant risks presented by current policies, the Trust has measures in place to stay abreast of, respond and mitigate the challenges presented.

6 RECOMMENDATION

6.1 The above analysis supports the conclusion that the Trust should prepare its financial statements on a going concern basis and has taken steps to ensure that this remains the case for at least 12 months from the date of preparation of the Annual Accounts.

6.2 The Trust Directors are requested to note the above information and assumptions in confirming their agreement with the positive Going Concern assessment.

Paul Traynor
Chief Financial Officer