GOING CONCERN STATEMENT 2017/18

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Context

Trust Board paper F2

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.

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 2016/17 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 2017/18 as reflected in the Going Concern Statement.
2. We are financially stable for 2017/18 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 26th May 2017.

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 2018

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

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

GOING CONCERN STATEMENT 2017/18

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.

2.4 The Annual Governance Statement for 2016/17 details all significant risks brought to the attention of the Board.

3. OVERVIEW OF THE 2016/17 FINANCIAL YEAR

3.1 We experienced a very challenging financial year in 2016/17 driven by the requirement to deliver a £35m CIP programme set against the backdrop of an opening deficit of (£34.1m). We achieved a/ (£27.2m) deficit excluding impairments of (£24.8m) against a planned deficit of (£8.3m), and the main components of our financial outturn are covered below. Excluding STF we delivered a deficit of £38,560k compared to plan of £31,700k, a variance of £6,860k.

3.2 Our income increased by £46.9m (5.1%) from £866m to £913m predominantly driven by patient activity related income.

3.3 Total expenditure increased by £51m (5.7%) from £900.3m to £951.7m driven by an increase in pay costs of £57m reflecting the transfer of estates and facilities from an out-sourced service to an in-house provision. Non-pay remained in line with the prior year and non-operating costs and non-operating costs reduced by £5m due to lower depreciation charges and dividend.

3.4 Our year-end outturn on CIPs was £36.2m compared to plan a plan of £35m as shown by CMG in Figure 1

Figure 1 – CIP Outturn 2016/17

	YTD				
	Plan £'000	Actual £'000	F / (A) £'000	%	FY Plan £'000
CHUGGS	3,810	4,130	320	8%	3,810
CSI	4,370	4,385	14	0%	4,370
ESM	5,845	5,898	53	1%	5,845
ITAPS	3,794	3,975	180	5%	3,794
MSS	4,011	4,037	26	1%	4,011
RRCV	5,814	5,876	61	1%	5,814
Womens & Childrens	3,928	2,928	(1,000)	(25%)	3,928
Total: CMG	**31,573**	**31,228**	**(345)**	**(1%)**	**31,573**
Facilities	830	1,947	1,117	135%	830
Corporate Total	2,641	2,995	354	13%	2,641
Total CIP	**35,044**	**36,170**	**1,125**	**3%**	**35,044**

2016/17 cash outturn

3.5 We achieved our plan to reduce cash from £3.2m at the end of 2015/16 to £1.2m at the end of 2016/17. £1m is the minimum permitted balance required by the Secretary of State for Health as stated in our external loan agreement.

Figure 2 – Closing Cash Balance 2016/17

Balance sheet as at 2016/17 plan	Actual Closing Balance 31/03/16 £000s	Actual Closing Balance 31/03/17 £000s	Movement £000s
Cash and Cash Equivalents	3,178	1,238	(1,940)

3.6 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 drawn down in the year is summarised in Figure 3:

Figure 3 – 2016/17 External Financing Summary

	£12m Capital Loan	IRWC facility	Capital emergency floor loan	Interim revenue support loan	Total
	£000	£000	£000	£000	£000
Brought forward balance from 2015/16	11,455	0	10,000	34,100	**55,555**
Drawn down / (Repaid)	(545)	57,988	21,075	0	**78,518**
Closing balance	**10,910**	**57,988**	**31,075**	**34,100**	**134,073**

3.7 Our opening financing consisted of a £55,555k of loans and we finished the year with £55.6m of capital and revenue loans, including £58m of Interim Revolving Working Capital Facility (IRWC) that we have been permitted to carry forward to 2017/18 when it will need to be repaid.

4. FINANCIAL PLANS

4.1 We have submitted the final version of our annual plan for 2017-18 to NHS Improvement. This includes:

- income of £941m;
- non-operating expenditure of (£42.4m);
- and operating expenditure of (£925.3m);

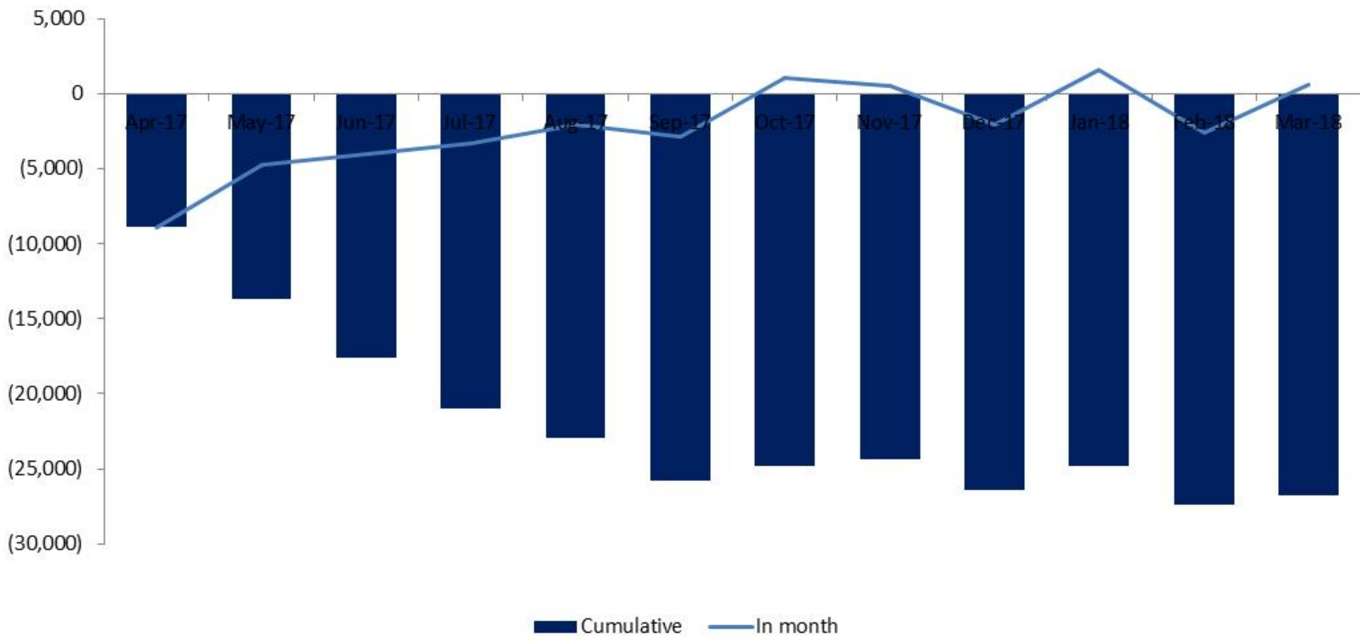
to achieve a total retained deficit of (£26.7m). Income has increased by £28m due to patient related activity whilst there have been marginal movements on operating costs with pay set to increase to £578m from £576m and non-pay of £347m from £340m representing the marginal cost to deliver the incremental activity. Non-operating costs have increased by £5.8m due to higher depreciation and interest costs.

4.2 Final signed agreements are now in place with Specialised Commissioners and CCGs. The key details relating to the plan for 2017-18 are as follows:

- Reduction of CIP target of £33m from £35.0m
- Capital Programme of £54.4m predominantly as a result of reconfiguration schemes including Emergency Floor, additional bed capacity, Imaging and the Childrens Hospital.
- An underlying deficit of £26.7m with no receipt in relation to Sustainability and Transformation Funding.

4.3 Our planned in-month and cumulative deficit for 2017-18 is shown in Figure 4 and based on the accuracy of financial planning we are not expecting any significant variances between planned and actual values.

Figure 4 – Planned Surplus/(Deficit) for 2017-18



Narrative

4.7 Within our 2017-18 plan submitted to NHS Improvement we have included a capital programme of £54.4m. The total CRL and cash currently available to fund this programme totals £31.8m, of which £31.5m will be funded through internally generated capital and £0.3m donations. External funding consists of £7.0m through the approved capital cash for the emergency floor development together with £15.6m in relation to other reconfiguration projects for which the Trust is in the process of following the nationally defined process.

Figure 5 – Approved capital funding 2017/18

Month	Capital emergency floor spend	Explanation
Apr-17	1,000	Loan to be drawn in line with timetable
May-17	1,000	Loan to be drawn in line with timetable
Jun-17	1,000	Loan to be drawn in line with timetable
Jul-17	1,000	Loan to be drawn in line with timetable
Aug-17	1,000	Loan to be drawn in line with timetable
Sep-17	1,000	Loan to be drawn in line with timetable
Oct-17	1,033	Loan to be drawn in line with timetable
Total	**7,033**	Total deficit funded through pre-approved loan.

4.8 Due to the uncertainties associated with capital availability, the Capital Management and Investment Committee is working alongside lead officers for each aspect of the plan to risk assess how they operate within the constraints of the Plan excluding receipt of external funding.

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. 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; a £34.1m deficit in 2015/16; and a £27.2m deficit in 2016/17.

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 2016/17 the Trust has delivered a deficit for the year of £27.2m which leaves the Trust with a cumulative deficit of £136.4m (14.8% of turnover) meaning that we did not achieve the statutory break even duty in-year or cumulatively in 2016/17. Figure 7 shows the annual cumulative position against the break-even duty between 2012/13 and 2016/17.

Figure 6 - Performance against the Break Even duty

Breakeven Performance	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/2016 £000s	2016/2017 £000s	2017/18 Plan £000s
Turnover	**758,665**	**770,393**	**834,376**	**866,036**	**924,269**	**941,047**
Break-even in Year Position	91	(39,655)	(40,648)	(34,051)	(27,152)	(26,700)
Break-even Cumulative Position	5,153	(34,502)	(75,150)	(109,201)	(136,353)	(163,053)
Materiality Test (i.e. is it =< 0.5%) Break-even In-year Position (%)	**0.0**	**(5.1)**	**(4.9)**	**(3.9)**	**(2.9)**	**(2.8)**
Break-even Cumulative Position (%)	**0.7**	**(4.5)**	**(9.0)**	**(12.6)**	**(14.8)**	**(17.3)**

5.4 The above figures (up to 2016/17) are reported in our financial statements, which are currently subject to audit finalisation. The planned deficit for 2017/18 will lead to a cumulative break-even position for 2017/18 of (£163.1m), which is 17.3% of the annual turnover for that year.

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 £26.7m external financing in 2017/18 to fund our deficit as shown in Figure 7.

Figure 7 - Cash funding for our 2017/18 deficit

Month	Planned Deficit	IRWC facility	New revenue support loans	Total funding	Explanation
b/f	0	57,988	0		
Apr-17	8,414	0	8,414	**8,414**	New loan drawn 18th April
May-17	2,327	2,327	0	**2,327**	IRWC drawn down 15th May
Jun-17	802	0	802	**802**	Loan to be drawn in line with timetable
Jul-17	2,068	0	2,068	**2,068**	Loan to be drawn in line with timetable
Aug-17	12	0	12	**12**	Loan to be drawn in line with timetable
Sep-17	2,362	0	2,362	**2,362**	Loan to be drawn in line with timetable
Oct-17	(251)	(251)	0	**(251)**	Loan to be drawn in line with timetable
Nov-17	159	0	159	**159**	Loan to be drawn in line with timetable
Dec-17	5,314	0	5,314	**5,314**	Loan to be drawn in line with timetable
Jan-18	(630)	(630)	0	**(630)**	Loan to be drawn in line with timetable
Feb-18	4,720	0	4,720	**4,720**	Loan to be drawn in line with timetable
Mar-18	1,403	(57,107)	58,510	**1,403**	B/fwd IRWC to be repaid by the year end
Total	**26,700**	**2,327**	**82,361**	**26,700**	Total deficit funded through IRWC and loans

5.7 Our IRWC facility is approved and allows us to draw down funds as we need them up to a current maximum limit of £60.3m. This will be replaced by an interim revenue support loan at some point in 2017/18. As we have reached the limit of our IRWC facility we will be able to access interim revenue support loans during the year.

5.8 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 £1m 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 £3.8m.

5.9 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 financing application that we can demonstrate that we are taking action to improve our own internal processes in order to maximise cash.

5.10 Greater scrutiny is placed on cash through the monthly IFPIC meetings, where cash is a standing item on the agenda, and through our cash committee. These forums also monitor the level of receivables and payables, and the link to cash. Figure 8 shows the ageing of NHS and Non-NHS receivables and payables as at the end of March 2017.

Figure 8 – Ageing of Payables and Receivables as at 31/03/17

Aged Receivables/Payables: 31/03/2017	0-30 days	31 - 60 Days	61-90 Days	Over 90 Days		Prior year
	£000s	£000s	£000s	£000s	%	%
Receivables Non NHS	6,944	865	437	4,252	34%	24%
Receivables NHS	27,291	2,919	4,849	1,503	4%	10%
Payables Non NHS	(35,512)	(7,032)	(1,240)	(5,959)	12%	3%
Payables NHS	(4,649)	(2,332)	(501)	(1,307)	15%	9%

5.11 The NHS Improvement target is for us to have less than 5% of aged payables or receivables over 90 days. The above figures have deteriorated when compared to the prior year, however there are several ‘one off’ reasons for the increases and we have a detailed action plan in each of the above areas. We also have an ongoing joint project across the Financial Services and Procurement departments focusing on streamlining and improving the procure to pay process.

5.12 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

5.13 Our financial plans anticipate that we will need to secure temporary borrowing through our IRWCF or through revenue support loans. Interest of 3.5% is payable on both forms of financing and will be charged on a daily basis based on drawn amounts.

5.14 The repayment of loan capital; interest; and PDC dividends have been built into our financial plan for 2017/18. We have planned to manage our finances within the constraints of the External Financing Limit for that year.

Adverse operating conditions

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

Loss of key management positions

5.16 There are currently no key managerial vacancies.

Compliance with statutory requirements

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

Pending or on-going legal action

5.18 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

5.19 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