GOING CONCERN STATEMENT 2018/19

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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.

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 2017/18 accounts be prepared on the going concern basis?
4. Is the Audit Committee prepared to recommend the Going Concern Statement to the Trust Board for approval?

Conclusion

1. We have assessed our future prospects for 2018/19 as reflected in the Going Concern Statement.
2. We are financially stable for 2018/19 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 2018.

Input Sought

We require the Audit Committee to recommend the Going Concern Statement on to the Trust Board for its approval on 25 May 2018.

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: May 2019

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 2018/19

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 (NHSI) 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 2017/18 details all significant risks brought to the attention of the Board.

3. OVERVIEW OF THE 2017/18 FINANCIAL YEAR

3.1 We experienced a challenging financial year in 2017/18 driven by the requirement to deliver a £44.1m CIP programme set against the backdrop of an opening deficit of (£26.7m). We achieved the revised deficit for 2017/18 of (£36.8m) in accordance with our revised plan. This position excluded impairments of (£2.7m) and included a (£2.3m) adjustment in relation to a CQUIN risk reserve. The main components of our financial outturn are covered below.

3.2 Our income increased by £40m (4.3%) from £924m to £964m predominantly driven by patient activity related income.

3.3 Total expenditure increased by £23m (2.4%) from £977m to £1,000m driven by an increase in pay costs of £38m reflecting an increase in agency costs. Non-pay reduced by £15m due to a reduction in non-operating costs reduced by £5m due to lower depreciation charges and dividend.

3.4 Our year-end outturn on CIPs was £39.3m compared to plan a plan of £44.1m. This is shown by CMG in Figure 1.

Figure 1 – CIP Outturn 2017/18

	YTD Plan £'000	YTD Actual £'000	YTD F / (A) £'000	YTD %	FY Plan £'000
CHUGGS	3,763	3,852	89	2%	3,763
CSI	3,923	4,103	180	5%	3,923
ESM	5,477	4,749	(727)	(13%)	5,477
ITAPS	4,124	2,549	(1,576)	(38%)	4,124
MSS	3,635	3,636	1	0%	3,635
RRCV	5,061	5,084	23	0%	5,061
Womens & Childrens	5,165	2,302	(2,863)	(55%)	5,165
Total: CMG	**31,148**	**26,276**	**(4,872)**	**(16%)**	**31,149**
Facilities	3,380	3,380	0	0%	3,380
Corporate Total	9,624	9,686	61	1%	9,624
Total CIP	**44,152**	**39,341**	**(4,811)**	**(11%)**	**44,153**

2017/18 cash outturn

3.5 We ended the year with a cash balance of £2.9m which included a cash balance of £1.7m relating to our subsidiary, Trust Group Holdings. £1m is the minimum permitted balance required by the Secretary of State for Health as stated in our external loan agreements.

Figure 2 – Closing Cash Balance 2017/18

Balance sheet as at 2017/18 plan	Actual Closing Balance 31/03/17 £000s	Actual Closing Balance 31/03/18 £000s	Movement £000s
Cash and Cash Equivalents	1,238	2,900	1,662

3.6 A consequence of our I&E deficit is that we are unable to generate sufficient cash to fund our expenditure, and we therefore 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 during 2017/18 is summarised in Figure 3:

Figure 3 – 2017/18 External Financing Summary

	£12m Capital Loan	IRWC facility	Capital emergency floor	Interim revenue support loan	Interim revenue working capital loan	Total
	£000	£000	£000	£000	£000	£000
Brought forward balance from 2016/17	10,910	57,988	31,075	34,100	0	134,073
Draw down / (Repaid)	(545)	7,571	6,121	19,129	31,986	64,262
Closing balance	**10,365**	**65,559**	**37,196**	**53,229**	**31,986**	**198,335**

3.7 Our opening financing consisted of a £134,073k of loans and we finished the year with £198,335k of capital and revenue loans, including £66m of Interim Revolving Working Capital Facility (IRWC) that we have been permitted to carry forward to 2018/19 when it will need to be repaid.

3.8 We applied for additional loans to support our revenue position of £19,129k and working capital support of £31,986k.

3.9 We prepare a rolling 12 month cashflow forecast which currently extends to June 2019 and is based on our latest financial plans.

4. FINANCIAL PLANS

4.1 We have submitted the final version of our annual plan for 2018/19 to NHS Improvement. This includes the following items to achieve a total retained deficit of (£29.9m):

- income of £956.7m;
- non-operating expenditure of (£30.4m);
- and operating expenditure of (£956.4m);

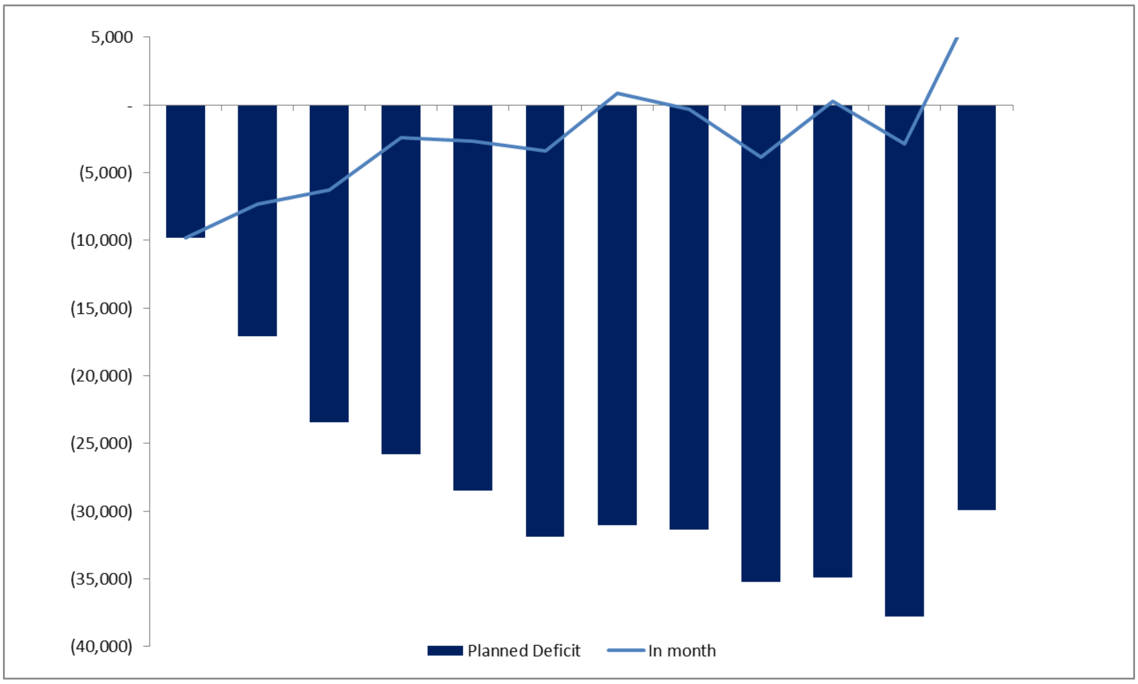
4.2 Income has increased by £6.8m due to patient related activity whilst there have been marginal movements on operating costs with pay set to increase to £617.3m from £613.9m and a decrease in non-pay from £374.4m to £362.3m. Non-operating costs will reduce by £5.7m due to the sale of land at the Glenfield site.

4.3 Final signed agreements are now in place with Specialised Commissioners and CCGs. The key details relating to the plan for 2018/19 are as follows:

- Increase of CIP target of £51.5m from £39.3m
- Capital Programme of £50.4m £27.4 PDC funding in relation to ICU projects.
- An underlying deficit of £29.9m.

4.4 Our planned in-month and cumulative deficit for 2018/19 is shown in Figure 4 and we are not expecting any significant variances between planned and actual values.

Figure 4 – Planned Surplus/(Deficit) for 2018/19



4.5 Within our 2018/19 plan submitted to the NHSI we have included a capital programme of £50.4m, which is a £49.8m charge against the CRL after accounting for the impact of donated assets. This will be funded through £23.0m internally generated capital and £27.4m PDC.

Figure 5 – Approved PDC funding 2018/19

Month	ICU Projects £000	Explanation
Sep-18	2,000	To be received in line with timetable
Oct-18	3,500	To be received in line with timetable
Nov-18	4,000	To be received in line with timetable
Dec-18	4,000	To be received in line with timetable
Jan-18	4,500	To be received in line with timetable
Feb-18	4,500	To be received in line with timetable
Mar-18	4,892	To be received in line with timetable
Total	**27,392**	Total PDC to be received

4.6 Due to the uncertainties associated with capital availability, the Capital Monitoring 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 taking into account the availability 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; £27.2m deficit in 2016/17 and £34.5m in 2017/18.

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 2017/18 the Trust has delivered a deficit for the year of £34.5m which leaves the Trust with a cumulative deficit of £170.8m (17.7% of turnover) meaning that we did not achieve the statutory break even duty in-year or cumulatively in 2017/18. Figure 6 shows the annual cumulative position against the break-even duty between 2012/13 and 2017/18.

Figure 6 - Performance against the Break Even duty

Breakeven Performance	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 Plan
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	**758,665**	**770,393**	**834,376**	**866,036**	**924,269**	**963,509**	**956,742**
Break-even in Year Position	91	- 39,655	- 40,648	- 34,051	- 27,152	- 34,455	- 29,900
Break-even Cumulative Position	5,153	- 34,502	- 75,150	- 109,201	- 136,353	- 170,808	- 200,708
Maternity Test (i.e. is it =<0.5%) **Break-even in-year Position (%)**	**0.0**	**(5.1)**	**(4.9)**	**(3.9)**	**(2.9)**	**(3.6)**	**(3.1)**
Break-even Cumulative Position (%)	**0.7**	**(4.5)**	**(9.0)**	**(12.6)**	**(14.8)**	**(17.7)**	**(21.0)**

5.4 The above figures (up to 2017/18) are reported in our financial statements, which are currently subject to audit finalisation. The planned deficit for 2018/19 will lead to a cumulative break-even position for 2018/19 of (£200.7m), which is 21.0% 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 £29.9m external financing in 2018/19 to fund our deficit as shown in Figure 7.

Figure 7 - Cash funding for our 2018/19 deficit

Month	Planned Deficit	Interim revenue support Loan	New revenue support loan	Total funding	Explanation
b/f	0	34,100	0		
Apr-18	9,818	0	5,265	5,265	Loan to be drawn in line with timetable
May-18	7,301	0	3,136	3,136	Loan to be drawn in line with timetable
Jun-18	6,302	0	2,150	2,150	Loan to be drawn in line with timetable
Jul-18	2,398	0	2,150	2,150	Loan to be drawn in line with timetable
Aug-18	2,681	0	2,150	2,150	Loan to be drawn in line with timetable
Sep-18	3,416	0	2,150	2,150	Loan to be drawn in line with timetable
Oct-18	(850)	0	2,150	2,150	Loan to be drawn in line with timetable
Nov-18	284	0	2,150	2,150	Loan to be drawn in line with timetable
Dec-18	3,878	0	2,150	2,150	Loan to be drawn in line with timetable
Jan-19	(298)	0	2,150	2,150	Loan to be drawn in line with timetable
Feb-19	2,891	(34,100)	36,250	2,150	B/fwd interim revenue loan to be repaid
Mar-19	(7,921)	0	2,149	2,149	Loan to be drawn in line with timetable
	29,900	**0**	**64,000**	**29,900**	**Total deficit funded through revenue loans**

5.7 Our IRWC facility has reached the authorised limit of £65.6m in 2017/18. This will be replaced by an interim revenue support loan at some point in 2018/19 and we are then expecting the revolving facility to be accessible for future financing. As we have reached the limit of our IRWC facility we will be able to access interim revenue support loans during the year to fund our deficit.

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 £5.9m.

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 FIC 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 2018.

Figure 8 – Ageing of Payables and Receivables as at 31/03/18

Aged Receivables/Payables: 31/03/2018	0-30 days £000s	31-60 days £000s	61-90 days £000s	Over 90 days	Days	Prior Year
Receivables Non NHS	16,522	1,457	1,004	4,461	19%	34%
Receivables NHS	26,246	2,293	197	7,532	21%	4%
Payables Non NHS	(20,558)	(8,111)	(3,461)	(1,645)	5%	12%
Payables NHS	(14,976)	(2,999)	(258)	(16,839)	48%	15%

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 2018/19. 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