GOING CONCERN STATEMENT 2019/20

Author: Nick Sone – Financial Controller **Sponsor**: Paul Traynor – Chief Financial Officer **Date**: 24th May 2019

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 2018/19 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 2019/20 as reflected in the Going Concern Statement.
2. There remain material uncertainties related to the Trust's financial sustainability with regards to profitability and liquidity but the Trust has demonstrated that through positive contracting outcomes underpinned by robust financial plans and strategies it is stable for the next 12 months.
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 24th May 2019.

Input Sought

We require the Audit Committee to recommend the Going Concern Statement to the Trust Board for approval.

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 2020

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 2019/20

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 2018/19 details all significant risks brought to the attention of the Board.

3. OVERVIEW OF THE 2018/19 FINANCIAL YEAR

3.1 We experienced a challenging financial year in 2018/19 driven by the requirement to deliver a £51.5m CIP programme set against the backdrop of an opening deficit of (£21.2m). The plan included the creation of a Facilities Management Partnership (FM LLP). Within the year, we were informed that the planned FM LLP could no longer proceed. As a result we could not deliver the Control Total and excluding PSF and any impairment relating to Property, Plant and Equipment, we delivered a deficit of £41.7m (including £10.1m of PSF funding) for the year with CIP of £51.6m. The main components of our financial outturn are covered below.

3.2 Our income increased by £32m (4%) from £961m to £992m predominantly driven by patient activity related income. We also had a £5.9m gain on the sale of surplus land at our Glenfield site.

3.3 Total expenditure increased by £44.2m (4.4%) from £997.4m to £1,041.6m driven by an increase in pay costs of £32m and an increase in non-pay of £6.5m. £30m of the increase in pay costs was due to substantive staff costs including £10.6m relating to an uplift in agenda for change pay. There was a £2.8m increase in the costs relating to bank staff and a £2.2m reduction in agency spend. The increase in non-pay costs included an impairment of our property, plant and equipment of £1.5m (2017/18 - £2.7m) following a revaluation of our estate.

3.4 Our year-end outturn on CIPs was £51.6m compared to plan a plan of £51.5m. This is shown by CMG in Figure 1.

Figure 1 – CIP Outturn 2018/19

	Plan	Actual	F / (A)		FYE
	£'000	£'000	£'000	%	£'000
CHUGGS	3,467	3,489	22	101%	3,485
CSI	2,287	2,938	651	128%	2,666
ESM	5,189	6,458	1,269	124%	4,893
ITAPS	2,908	2,915	7	100%	2,066
MSS	3,911	3,811	-101	97%	4,252
RRCV	5,253	5,253	0	100%	5,571
Womens & Childrens	5,268	2,985	-2,283	57%	4,336
TOTAL: CMG	**28,284**	**27,849**	**-436**	**98%**	**27,270**
Facilities	2,377	1,813	-564	76%	2,116
Corporate Total	20,820	21,929	1,109	105%	12,166
Total CIP	**51,481**	**51,590**	**110**	**100%**	**41,552**

2018/19 cash outturn

3.5 We ended the year with a cash balance of £4m which included a cash balance of £2.5m 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 2018/19

Balance sheet as at 2018/19 plan	Actual Closing Balance 31/03/18 £000s	Actual Closing Balance 31/03/19 £000s	Movement £000s
Cash and Cash Equivalents	2,900	3,995	1,095

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 2018/19 is summarised in Figure 3:

3.7 Our opening financing consisted of a £198.3m of loans and we finished the year with £245.3m of capital and revenue loans, including £66m of Interim Revolving Working Capital Facility (IRWC) that we have been permitted to carry forward.

3.8 At year end, the Trust had accessed £49.5m of 'Uncommitted Interim Revenue Support Facility' to support our deficit.

3.9 We prepare a rolling 12 month cashflow forecast which currently extends to June 2020 and is based on our latest financial plans.

4. FINANCIAL PLANS

4.1 We have submitted our 2019/20 financial plan to NHS Improvement, which is a £10.7m deficit - which includes the delivery of a £26.6m efficiency programme.

4.2 Our financial plan and resulting deficit position is driven by our activity and income assumptions, workforce implications and CIP. We have a clear process for delivering against these areas, and to ensure a realistic monthly profile of income and expenditure.

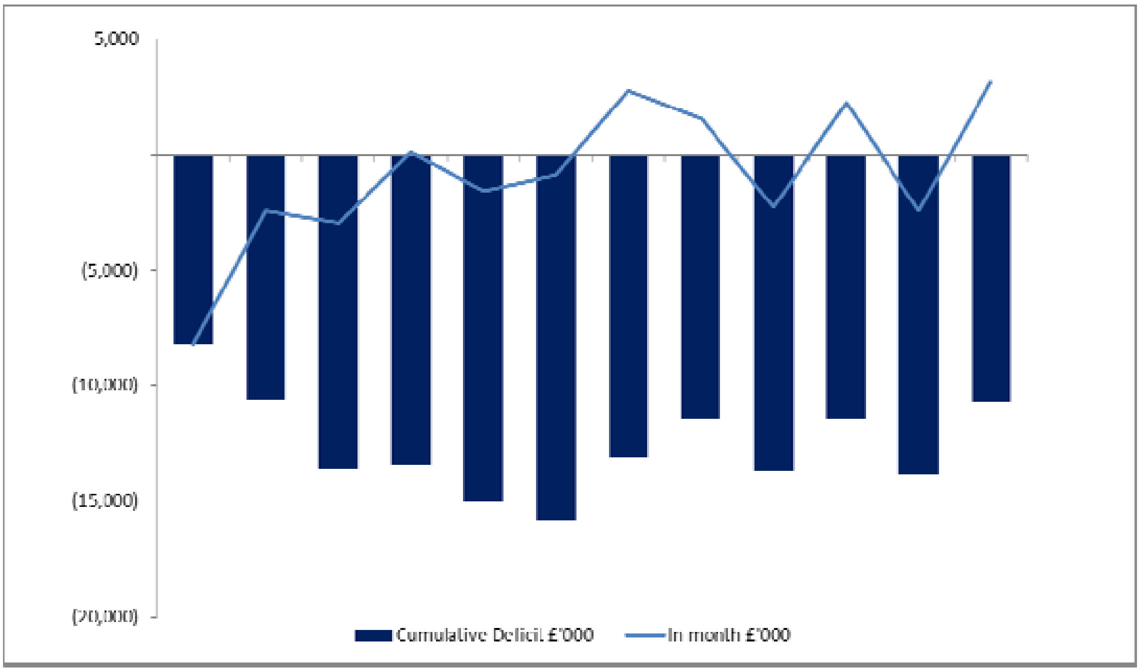
4.2 Final signed contracts are now in place with Specialised Commissioners and CCGs. The services supplied by the Trust are being commissioned in the same manner to previous years and there are no material changes in the type of services provided ie no discontinued operations.

4.3 The key details relating to the plan for 2019/20 are as follows:

- CIP target of £26.6m
- Capital Programme of £59.1m (including £21.6m approved PDC funding in relation to ICU projects and £10m emergency capital funding)
- A deficit of £10.7m (post PSF, MRET and FRF funding)

4.4 Our planned in-month and cumulative deficit for 2019-20 is shown in Figure 3 and we are not expecting any significant variances between planned and actual values.

Figure 3 – Planned Surplus/(Deficit) for 2019/20



4.5 Within our 2019/20 plan submitted to the NHSI we have included a capital programme of £59.1m.

4.6 NHSI has confirmed that the Trust should plan for the receipt of £10m of Emergency Capital Funding. The process has been described to the Trust on 25 March 2019 and the finance team will work with the relevant stakeholders to complete the necessary business cases for a formal application.

4.7 The Trust has had a number of discussions with three private sector organisations on the framework and other organisations to ascertain the affordability and deliverability of a decontamination model which does not add to the Trust's CRL through an off balance sheet solution. These discussions have not yet resulted in a solution that is affordable, deliverable and satisfactory from the providers and Trust perspective. Whilst this is being further explored, there is a significant risk that the only deliverable and affordable solution is one delivered by the Trust itself.

4.8 Capital Budget Holders are being given capital allocations to a maximum level that allows them to progress with urgent capital spend but in totality does not exceed the internally generate and pre-approved available funds.

Figure 4 – Approved PDC funding 2019/20

Month	ICU Projects £000	Explanation
Jun-19	8,490	To be received in line with timetable
Sep-19	8,241	To be received in line with timetable
Dec-19	4,478	To be received in line with timetable
Mar-20	359	To be received in line with timetable
Total	**21,568**	Total PDC to be received

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; £34.5m in 2017/18 and £41.7m in 2018/19.

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 2018/19 the Trust has delivered a deficit for the year of £41.8m which leaves the Trust with a cumulative deficit of £212.5m (21.4% of turnover) meaning that we did not achieve the statutory break even duty in-year or cumulatively in 2018/19.

5.4 The Trust has accepted its control total for 2019/20 of a deficit position of £10.7m so does not see an immediate return to an operating surplus position within the next 12 months. However, the Trust is expected to return to breakeven, in line with the ambitions of the NHS Long Term Plan, by 2023/24.

5.5 Figure 5 shows the annual cumulative position against the break-even duty since 2013/14.

Figure 5 - Performance against the Break Even duty

Breakeven Performance	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 Plan
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	**770,393**	**834,376**	**866,036**	**924,269**	**960,790**	**992,386**	**990,438**
Break-even in Year Position	- 39,655	- 40,648	- 34,051	- 27,152	- 34,455	- 41,740	- 10,656
Break-even Cumulative Position	- 34,502	- 75,150	- 109,201	- 136,353	- 170,808	- 212,548	- 223,204
Break-even in-year Position (%)	-5.10%	-4.90%	-3.90%	-2.90%	-3.60%	-4.20%	-1.10%
Break-even Cumulative Position (%)	-4.48%	-9.01%	-12.61%	-14.75%	-17.78%	-21.42%	-22.54%

5.6 The above figures (up to 2018/19) are reported in our financial statements, which are currently subject to audit finalisation. The planned deficit for 2019/20 will lead to a cumulative break-even position for 2019/20 of (£223.2m), which is 22.5% of the annual turnover for that year.

5.7 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

5.8 Further revenue loan support of £10.7m is projected as part of the 2019/20 financial plans and has been submitted to NHS Improvement as part of the annual planning process. The level of loans the Trust will hold is expected to rise from £245.3m to £253.8m in 2019/20 representing over 20% of the Trust's projected turnover.

5.9 £34.1m of loans are due to mature over the next 12 months and although the mechanism for repaying these through the availability of renewed working capital or longer term loan facilities is yet to be defined, the Trust is planning that these facilities will be made available. These loans first matured in 2018/19, and their terms were extended to 2019/20 so we can reasonably expect the same thing to happen when the loans mature for a second time.

5.10 The net increase in loans will be £8.5m.

5.11 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.

5.12 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 6 shows the ageing of NHS and Non-NHS receivables and payables as at the end of March 2019.

Figure 6 – Ageing of Payables and Receivables as at 31/03/19

Aged Receivables/Payables: 31/03/2019	0 - 30 Days £'000	31 - 60 Days £'000	61 - 90 Days £'000	Over 90 Days £'000	Days	Prior Year
Receivables Non NHS	9,005	902	856	4,004	27%	19%
Receivables NHS	25,295	519	108	7,447	22%	21%
Payables Non NHS	(22,549)	(8,166)	(4,091)	(1,384)	4%	5%
Payables NHS	(12,414)	(761)	(1,743)	(16,612)	53%	48%

5.13 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.

5.14 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

5.15 Our financial plans anticipate that we will need to secure temporary borrowing through revenue support loans. Interest of 1.5% is payable on this financing and will be charged on a daily basis based on drawn amounts.

5.16 The repayment of loan capital; interest; and PDC dividends have been built into our financial plan for 2019/20. We have planned to manage our finances within the constraints of the External Financing Limit for that year.

Adverse operating conditions

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

Loss of key management positions

5.18 There are currently no key managerial vacancies.

Compliance with statutory requirements

5.19 As far as management are aware the Trust has complied with its statutory requirements, with the exception of the break even duty as described above.

Pending or on-going legal action

5.20 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

5.21 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 CONCLUSION AND RECOMMENDATION

6.1 There remain material uncertainties related to the Trust's financial sustainability with regards to profitability and liquidity but the analysis above supports the recommendation that the Trust should prepare its financial statements on a going concern basis. In addition, the Trust 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