

# Going Concern

For the period 1 April 2014 to 31 March 2015



## Summary

- The trust needs to consider whether it is appropriate to prepare its accounts on a going concern basis and has considered the 2014/15 outturn position and the 2015/16 position detailed within the Forward Plan.
- Management has reviewed a range of evidence including internal and external financial reports, internal and external audit reports, dialogue with Monitor and the Department of Health and assessed our current economic position.
- The trust does not have any evidence indicating that the going concern basis is not appropriate. The trust is in receipt of Interim Revenue and Capital Support and has received a Working Capital Loan at the end of March towards 2015/16 commitments. The trust has not been informed by Monitor that there is any prospect of intervention or dissolution within the next 12 months.
- In terms of the sustainable provision of services, there has been no indication from the Department of Health that the trust will not continue to be a going concern.
- The accounts have been prepared on a going concern basis and recommends that the trust's Board of Directors should conclude that the trust is a going concern and it is appropriate for the accounts to be prepared on the going concern basis. There are no significant doubts about our ability to continue as a going concern that require disclosure.

## 1 Introduction

### 1.1 Going concern concept

The accounting concept of going concern refers to the basis on which an organisation's assets and liabilities are recorded and included in the accounts. If an organisation is a going concern, it is expected to operate indefinitely and not go out of business or liquidate its assets in the foreseeable future. An organisation that was not a going concern would prepare its accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium and long-term liabilities would become short-term liabilities.

Boards need to determine whether:

- the trust is a going concern and it is appropriate for the accounts to be prepared on the going concern basis; or
- the trust is a going concern but there are uncertainties regarding future issues which should be disclosed; or
- the trust is not a going concern and the accounts may need to be prepared on an appropriate alternative basis.

### 1.2 Position in foundation trusts

In the event that a foundation trust is dissolved by Monitor using the powers under section 25 of the Health and Social Care (Community Health and Standards) Act 2003, any property or liabilities of the trust may be transferred to another foundation trust, an NHS trust or the Secretary of State. Such a transfer may not be immediate, potentially resulting in the short-term discontinuation of services and default on liabilities. Furthermore, assets may be revalued downwards on transfer where the view is taken that particular services or activities are to be discontinued. Therefore, a foundation trust board needs to consider any future events that could adversely impact its activities, including its ability to achieve and maintain a level of performance to meet the risk criteria established by Monitor. Monitor's annual reporting manual covers going concern:

#### Going concern

- 3.20. IAS 1 requires management to assess, as part of the accounts preparation process, the NHS foundation trust's ability to continue as a going concern. The financial statements should be prepared on a going concern basis unless management either intends to apply to the Secretary of State for the dissolution of the NHS foundation trust without the transfer of the services to another entity, or has no realistic alternative but to do so. Table 6.2 of the FReM states that:

"The anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern".

- 3.21. Where management are aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the NHS foundation trust, these should be disclosed.'

## 2 **Going concern**

### 2.1 **Approach to assessing going concern position**

The trust needs to consider whether it is appropriate to prepare its 2014/15 financial statements on a going concern basis.

The trust has a number of sources of information that it can consider:

- Requirements/ guidance on going concern assessment in financial reporting standards (IAS 1), Monitor and publications provided by our external auditors.
- Trust external financial reporting in the form of published and draft statutory financial statements.
- Internal trust financial reports (on past, current and forecast performance).
- The trust's forward plan.
- Dialogue with Monitor and the Department of Health.
- Reports from external and internal audit on the financial position and financial management arrangements

### 2.2 **Going concern assessment**

The finance team has assessed the information above and identified the following relevant information. The information represents only a high level summary of the information. There are a range of detailed underpinning documents most of which are familiar to the trust's Board of Directors.

### 2.3 **What the financial statements tell us**

The trust's draft 2014/15 accounts show:

- A deficit of £16.8 million including impairments. The cash backed surplus amounted to £0.9 million after adjustments for impairments and depreciation.
- A cash balance of £11.1 million.
- Net assets of £93.0 million

### 2.4 **What internal financial reports tell us**

The trust goes into 2015/16 in a reasonable financial state:

- The trust achieved an underlying deficit of £7.0 million in 2014/15 (before restructuring costs and impairments), which was ahead of the deficit target set within the Recovery Plan by £11.4 million.

- The trust set a Cost Improvement Plan (CIP) for 2014/15 of £21.8 million and £26.0 million has been delivered, £4.2 million more than the target set in the Recovery Plan. £22.5 million of the £26.0 million delivered are recurrent savings.
- To support the financial position in 2014/15, Monitor and the Department of Health agreed to provide Interim Revenue Support of £7.2 million and Interim Capital Support of £7.2 million. These were received by the trust in March when the Department of Health identified the provision of this funding as borrowing. A further allocation of funding for 2015/16 in the form of a Working Capital loan and amounting to £10.5 million was also received in March to cover commitments in early April.
- In terms of liquidity, the trust closed 2014/15 with £11.1 million cash. This was above the planned target of £0.5 million following receipt of £10.5 million working capital loan detailed above
- The Continuity of Service Risk Rating was 2 against a plan of 1.

## 2.5 What the trust's forward plan tells us

The trust submitted its final Annual Plan Return on 14 May for the 2015/16 financial year. The plan detailed that the trust will make a deficit in 2015/16 of £13.7 million. The cash backed surplus amounting to £7.3 million after adjusting for impairments and depreciation.

The trust is planning to draw down £17.5 million in Interim Revenue and Interim Capital Support to fund commitments in 2015/16. Of this requirement, £10.5 million has already been drawn at the end of March 2015. £3 million of the March drawdown has been repaid in April and the trust has agreed with its main commissioners a revised phasing of its contract payments that has taken effect from May 2015. These agreements will delay the final drawdown of funding amounting to £10 million until February 2016.

The forward plan was prepared using national guidance on tariff and inflationary factors with income based on agreements with Commissioners. In addition to the published inflationary factors, expenditure assumptions took account of recurring pressures and approved investments. The plan was reviewed and further assurance has been provided by the trust's Finance and Investment Committee. The trust believes that this forward plan provides a realistic assessment of the trust's position.

The trust has set testing efficiency targets, including cost improvement plans amounting to £36.0 million in 2015/16. In 2014/15 the trust delivered 119% of the plan by the end of the year.

A draft Continuity of Service Risk Rating of '1' is forecast for the year. An action plan to recover the Continuity of Service Risk Rating to '3' is included in the Recovery Plan submitted in September 2014.

## 2.6 What dialogue with Monitor tells us

We have been in regular discussions with Monitor during the year covering in-year performance, the forecast outturn position and the impact on 2015/16. Liquidity has formed a key part of these discussions with a rolling 13 week cashflow forecast being one element of the monthly returns that the trust submit to Monitor. Early discussions have been held with the Department of Health on the drawdown of funding and this resulted in the provision of a Working Capital Loan in March 2014 towards the 2015/16 commitment. Cashflow projections provided to Monitor detail that the remaining funding towards 2015/16 will be required in February 2016.

## 2.7 What internal audit reports tell us

From the work carried out in 2014/15 there have been no other indications of significant financial risk or weaknesses in financial risk management.

## 2.8 Current economic position

The economic situation has deteriorated over recent years and in the short to medium term this will impact on the NHS. The trust has factored commissioner intentions, investment requirements and inflationary pressures for 2015/16 into the forecasts. In future years it is anticipated that the trust's position is likely to become even more difficult and the trust will have to continue to make significant savings to maintain financial viability.

The trust recognises that there is an urgent need to develop a wider programme for delivery of continued traditional savings and to derive benefits from transformational change. The trust commissioned external support from McKinsey & Company to work with the trust by contributing to the development of cost reduction programmes. This helped the trust deliver its 2014/15 CIP and the trust has identified and put plans in place to deliver a further £36.0 million in 2015/16.

## 2.9 Forming a view on going concern

The HFMA guide for non-executives on foundation trust accounts states that to allow non-executive directors to form a view of going concern:

‘management should report to them the process it has followed in forming a view on going concern and the assumptions on which that view is based. NEDs (non-executive directors) should, where appropriate, challenge those assumptions, particularly where they are aware of any significant issues that do not appear to have been taken into account, to ensure that the financial statements have been prepared on an appropriate basis.’

The guide also sets out a number of questions that non-executive directors may consider. These are covered below.

- Has a report been received from management forming a view on going concern?

*This document is the report.*

- Are the financial assumptions in that report, for example, future levels of income and expenditure consistent with the annual plan and the financial information provided to the board throughout the year?

*Yes. Updated trust forecasts for 2015/16 will come from the annual plan as presented to the Board of Directors.*

- Are the implications of statutory or policy changes appropriately reflected in the business plan, financial forecasts and report on going concern, for example, Payment by Results (PbR), Patient Choice, Agenda for Change?

*Yes. These issues are covered in the annual plan. For example the impact of changes to PbR is modelled, estimates on commissioning patterns are included and the impact of Agenda for Change in terms of inflation increases and incremental drift.*

- Are there any indications that commissioners are reviewing their commissioning arrangements so that income streams and activity levels could be adversely affected?

*Current forecasts incorporate activity informed by discussions with CCG's. The QIPP programme is continuing as CCG's seek to pull out costs. The trust will need to respond to this.*

- Have there been any significant issues raised with the Board during the year, for example, adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control, or significant variances to activity levels compared to those planned, which could cast doubts on the assumptions made?

*There are no such indications from external reports. Monthly financial updates have been presented to the Board of Directors during 2015/16 outlining Centre performance, working capital position and forecast CIP.*

- Does a review of available financial information (for example, annual accounts, in-year financial monitoring reports, future year financial forecasts) identify any of the following adverse financial indicators?

- liquidity problems, for example, negative cash flow, that is, cash inflows in the year less than cash outflows;
- poor or deteriorating performance against the better payment practice code, that is,
- deteriorating performance in the payment of creditors, possibly indicating cash flow problems; and
- delay or deferral of PDC or other loan repayments.

*The annual plan shows negative cash flows and the trust is planning to utilise Interim Capital and Interim Revenue Support through the Department of Health. A significant proportion of the 2015/16 requirement was received in advance of the year end.*

- Have the Board of Directors been notified of any proposals, either from the DH or Monitor that could have implications for the future operation of the organisation, for example, possible service reconfiguration or restructuring?

*The Board of Directors have not been notified of any proposals from either the DH or Monitor that could have implications on the future operation of the organisation.*

### 3 **Conclusion**

The trust does not have any evidence to suggest that the going concern basis is not appropriate, based on:

- The trust has received Interim support for both revenue and capital in 2014/15 and has received a further £10.5 million towards 2015/16. The remaining element of funding is due towards the end of 2015/16.
- Monitor has not informed the trust that there is any prospect of intervention or dissolution within the next 12 months.
- In terms of the sustainable provision of services, there has been no indication from the Department of Health that the trust will not continue to be a going concern.

The trust has prepared the accounts on a going concern basis and recommends that the Board of Directors conclude that the trust is a going concern and it is appropriate for the accounts to be prepared on this basis. There are no significant doubts about the trust's ability to continue as a going concern that require further disclosure.