

Board of Directors (in Public)

Item 5.2

Subject: Going Concern Report
Date of meeting: 31st March 2020
Prepared by: Frankie Morris, Acting Chief Finance Officer
Presented by: Frankie Morris, Acting Chief Finance Officer
Purpose of Report: For approval

BAF Ref	Impact on BAF
3	None

1) Executive Summary

The Trust Final Accounts will be prepared on a 'Going Concern' basis subject to approval of the Board of Directors. This paper sets out the range of evidence which has been used to assess the Trust's Going Concern position.

The Board of Directors is asked to confirm that:

- they have a reasonable expectation that the Trust has adequate resources to continue in operational existence for the foreseeable future; and
- there are no material uncertainties that cast doubt about our ability to continue as a going concern that require disclosure.

2) Background

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 is 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.

International Financial Reporting Standards (IFRS) require the Trust's Directors to assess and satisfy themselves that it is appropriate to prepare the financial statements on a going concern basis. It is not automatically presumed that trusts are a going concern.

3) Assessing the Going Concern Position

In assessing whether it is appropriate to prepare the 2019/20 financial statements on a going concern basis, the Trust has considered the following:

- The organisation and its environment
- Applicable financial reporting framework
- The organisation's system of internal control

The Organisation and its Environment		
Area	Trust Position	Evidence
Current economic position	The NHS is facing significant financial pressures through low financial growth and increasing demands on its services. The Trust understands that this will mean continued focus on productivity and efficiency improvements and has developed its CIP capability processes in order to help support this requirement. The Trust is fully engaged in the Cheshire and Merseyside Health and Social Care transformation plans and is leading on the CVD workstream.	<ul style="list-style-type: none"> • 2020/21 CIP Plan • CVD engagement • Submission of system wide 5 year financial plans
Hosted Services	The trust has been successful in the tender to provide hosted services for the Liverpool Health Partnership and Innovation Agency. This will increase the trusts turnover by circa £8m per annum as from 1 st April 2020. This will also help to strengthen relationships with research agencies in line with the Trust's strategy.	<ul style="list-style-type: none"> • Innovations Agency bid document • Liverpool Health Partnership bid document
Brexit	The UK is currently in a transition period where all existing EU laws and rights continue until 31st December 2020. The impact is being monitored both nationally and locally. A risk has been identified and subsequently reduced following the national announcement within the trusts risk register.	<ul style="list-style-type: none"> • Trust Brexit Contingency Group • Trust Risk register
Coronavirus	The world is currently experiencing a pandemic of the virus COVID 19. The Trust is following NHS guidance. The Trust is monitoring this development closely and will follow all DHSC guidance.	<ul style="list-style-type: none"> • Trust Risk Register • DHSC guidance
Applicable Financial Reporting Framework		
Area	Trust Position	Evidence
Financial reporting	The Trust is forecasting a surplus of approximately £2.779m for 2019/20. This position is being supported by £1.762m of non-recurrent Provider Sustainability and Transformation Funding (PSF). The exit run rate is monitored regularly during the year and has been fully incorporated into the 2020/21 financial plan. Cash balances are anticipated to be approx. £25m at the end of the year.	<ul style="list-style-type: none"> • Month 10 Forecast • Trust balance sheet
Financial planning	Operational Planning for 2020/21 has been suspended by the DHSC. In its place a block payment for April – July will be provided, with any additional costs related to COVID-19 covered through monthly top-ups. More guidance on planning for 2020/21 will be published.	<ul style="list-style-type: none"> • Letter from Simon Stevens and Amanda Pritchard, dated 17th March 2020

	<p><i>The Trust's draft operating plan for 2020/21 was submitted to NHS Improvement in March 2020. The financial plan reflected a planned surplus of £1.072m, excluding any additional financial recovery fund (FRF) allocation.</i></p> <p><i>This position is predicated on delivery of a challenging £3.8m Cost Improvement Programme (CIP). The plan was prepared using national guidance on tariff and inflationary factors with activity based on capacity and demand requirements. Expenditure assumptions included recurring pressures and approved investments. The Trust believes that this forward plan provided a realistic assessment of the Trust's position.</i></p>	<ul style="list-style-type: none"> • 2020/21 Approved financial plan
Income & Contracts	<p>Position set out below is no longer pertinent as Operational Planning for 2020/21 has been suspended.</p> <p><i>Contracts with NHS England and local CCGs are yet to be agreed; negotiations are ongoing with a deadline of 27th March 2020. This deadline has been extended as a result of a delay in the national guidance being published. There is a slight risk associated with the final contract value not being in line with assumptions within the 2020/21 financial plan. However at this stage it is felt this is minimal and is expected at this stage in the planning process.</i></p>	<ul style="list-style-type: none"> • 2020/21 financial plan • 5 year system wide financial plan.
Capital Plans	<p>As above, Operational Planning for 2020/21 has been suspended and the capital plan for 2020/21 needs to be reviewed in the light of demands for the COVID-19 response.</p> <p><i>The capital plan for 2020/21 has been prioritised and equates to £10.6m. It has been approved by the Board of Directors. This is closely monitored throughout the year and is reported to the Board monthly with the finance paper.</i></p>	<ul style="list-style-type: none"> • 2020/21 Capital Plan
The Organisation's System of Internal Control		
Area	Trust Position	Evidence
Contingent Liabilities	The Trust is not aware of any significant contingent liabilities which could undermine the financial health of the Trust or impact on its	

	ability to remain a going concern. There are currently no significant legal, environmental or service liability issues which would give rise to a contingent liability. The Trust continues to provide for potential liabilities on a prudent basis in line with accounting standards.	
Internal Audit Reports	During 2019/20, Mersey Internal Audit Agency (MIAA) conducted an annual review of financial systems. A rating of 'high assurance' was given. This means that whilst there are some weaknesses in the design and/or operation of controls which could impair the achievement of objectives of the system, the impact would be minimal or they would be unlikely to occur.	<ul style="list-style-type: none"> • MIAA Internal Audit Reports
Financial and Operational Risk Management	The Trust has maintained its categorisation of Segment 1 under the Single Oversight Framework throughout the period and significant financial risks have been considered by the Audit Committee. The Trust has considered counter-party risks arising from key suppliers and commissioners and no risks have been identified which could impede the Trust's ability to operate as a going concern.	<ul style="list-style-type: none"> • NHSi Single Oversight Framework as reported in the monthly Finance Board Report
Review of Accounting Standards	<p>The Accounts for Liverpool Heart and Chest are prepared in accordance with the Department of Health and Social Care General Accounting Manual (GAM) 2019/20, with detailed requirements for Foundation Trusts set out in the NHS Foundation Trust Annual Reporting Manual (ARM) 2019/20. The accounting policies contained in the GAM follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury.</p> <p>The paper presented to the Audit Committee on 24th March sets out the Trust's Accounting Policies, highlighting any changes since 2018/19.</p>	<ul style="list-style-type: none"> • Review of Accounting Policies (item 6.1) Audit Committee 24th March 2020
IFRS16	<p>The introduction of IFRS 16 was suspended by FRAT on 19th March 2020 for the public sector for a further 12 months.</p> <p><i>In 2020/21 a new accounting standard IFRS16 replacing IAS17 is to be implemented. An assessment of the financial impact has been undertaken and included within the trusts 2020/21 financial plan. This</i></p>	<ul style="list-style-type: none"> • IFRS 16 audit paper (item 3.8) • 2020/21 Financial Plan

	<p><i>highlights an additional revenue cost of £43k.</i></p> <p><i>A paper has been presented to the audit committee which took place on 14th January 2020 to ensure robust process processes are in place to address the changes.</i></p>	
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4) Conclusion

It is proposed that the following disclosure is made in the 2019/20 financial statements:

The Board of Directors has a reasonable expectation that the Trust has adequate resources to continue in operational existence for the foreseeable future. They have identified no material uncertainties that cast significant doubt on the Trust's ability to continue as a going concern. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The main factors in reaching this conclusion were:

- *The Trust's latest plan forecasted a surplus position across the period*
- *HM Treasury has advised that all costs related to COVID-19 will be covered*
- *Projected cash balances are sufficient to sustain the investment programme and meet short term operating costs*
- *The Trust has sufficient cash headroom to support its plans;*
- *There is no expectation for short term loans or overdraft facilities*
- *Auditors' opinions have provided assurance as to the accuracy and reliability of the Trust's financial systems and the robustness of the internal controls.*

5) Recommendation

The Board of Directors is asked to confirm that:

- (a) They have a reasonable expectation that the Trust has adequate resources to continue in operational existence for the foreseeable future; and
- (b) There are no material uncertainties that cast doubt about our ability to continue as a going concern that require disclosure.