

Board of Directors (in Public)

Item 4.2

Subject: Going Concern Report
Date of meeting: Tuesday 27th March 2018
Prepared by: Frankie Morris, Deputy Chief Finance Officer
Presented by: Claire Wilson, Chief Finance Officer
Purpose of Report: To Note

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| BAF Ref | 3 |
| Impact on BAF | 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.

3) Assessing the Going Concern Position

In assessing whether it is appropriate to prepare the 2017/18 financial statements on a going concern basis, the Trust has considered the following:

Financial Reporting:

The Trust is forecasting a surplus of approximately £6.8m for 2017/18. This position is being supported by slippage on investments and also £2.554m of non-recurrent Sustainability and Transformation Funding (STF). The exit run rate is monitored regularly during the year and has been fully incorporated into the 2018/19 financial plan. Cash balances are anticipated to be approx. £7.6m at the end of the year.

Financial Planning:

The Trust's draft operating plan for 2018/19 was submitted to NHS Improvement in March 2018. The financial plan reflects a planned surplus of £7.8m, which includes £3.5m STF funding.

This position is predicated on delivery of a challenging £3.8m Cost Improvement Programme (CIP). The Board are fully sighted on the risks associated with delivery of the plan and the mitigations in place to support delivery should these materialise.

The plan was prepared using national guidance on tariff and inflationary factors with activity based on capacity and demand requirements. Expenditure assumptions include recurring pressures and approved investments. The Trust believes that this forward plan provides a realistic assessment of the Trust's position.

Income and Contracts:

HRG 4+ was implemented from 1 April 2017. This means that the Trust is now reimbursed for the costs of delivering its specialist services. This additional income is reflected in the Trusts financial plan and enables the Trust to move into a recurrent surplus position.

Contracts with NHS England and local CCGs are yet to be agreed; negotiations are ongoing with a deadline of 23rd March. There is an outstanding risk on the Trusts contract with Welsh Commissioners as the implementation of HRG4+ is still being disputed as a result of funding issues (approx. £2.4m impact). This issue is being pursued nationally.

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 2017/18, Mersey Internal Audit Agency (MIAA) conducted an annual review of financial systems. A rating of 'significant 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.

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.

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 5 Year Forward View transformation plans and is leading on the CVD workstream.

4) Conclusion

It is proposed that the following disclosure is made in the 2017/18 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 forecasts a surplus position across the period*

- *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.