

Trust Board

Agenda Item	11.	Date: 31.05.17																																																			
Title of Report	Going Concern Declaration																																																				
Purpose of the report and the key issues for consideration/decision	The Board are asked to receive and note the attached Going Concern Declaration and agree the conclusion that WWL is a going concern. This has also been discussed at Audit Committee and F&I Committee.																																																				
Prepared by: Name & Title	Shirley Martland, Head of Financial Services and Payroll																																																				
Presented by:	Rob Forster, Director of Finance																																																				
Action Required (please X)	Approve	<input checked="" type="checkbox"/>	Adopt	<input type="checkbox"/>	Receive for information	<input type="checkbox"/>																																															
Strategic/Corporate Objective(s) supported by this paper	Governance																																																				
Is this on the Trust's risk register?	No	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	If Yes, Score	<input type="checkbox"/>																																															
Which Standards apply to this report?	<table border="1"> <tr> <td>CQC</td> <td><input checked="" type="checkbox"/></td> </tr> <tr> <td>NHSLA</td> <td><input checked="" type="checkbox"/></td> </tr> <tr> <td>BAF Objectives</td> <td><input checked="" type="checkbox"/></td> </tr> <tr> <td>WWL Wheel</td> <td><input checked="" type="checkbox"/></td> </tr> </table>					CQC	<input checked="" type="checkbox"/>	NHSLA	<input checked="" type="checkbox"/>	BAF Objectives	<input checked="" type="checkbox"/>	WWL Wheel	<input checked="" type="checkbox"/>																																								
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Have all implications related to this report been considered?	<table border="1"> <thead> <tr> <th></th> <th>Yes/No/NA</th> <th>Any Action Required</th> <th></th> <th>Yes/No/NA</th> <th>Any Action Required</th> </tr> </thead> <tbody> <tr> <td>Finance Revenue & Capital</td> <td>Y</td> <td></td> <td>Equality & Diversity</td> <td>Na</td> <td>Na</td> </tr> <tr> <td>National Policy/Legislation</td> <td>Y</td> <td></td> <td>Patient Experience</td> <td>Na</td> <td>Na</td> </tr> <tr> <td>NHS Contract</td> <td>Na</td> <td>Na</td> <td>Governance & Risk Management</td> <td>Y</td> <td></td> </tr> <tr> <td>Human Resources</td> <td>Na</td> <td>Na</td> <td>Terms of Authorisation</td> <td>Y</td> <td></td> </tr> <tr> <td>Consultation/Communication</td> <td>Na</td> <td>Na</td> <td>Human Rights</td> <td>Na</td> <td>Na</td> </tr> <tr> <td>Other:</td> <td>Na</td> <td>Na</td> <td>Carbon Reduction</td> <td>Na</td> <td>Na</td> </tr> <tr> <td colspan="6">If action required please state:</td> </tr> </tbody> </table>						Yes/No/NA	Any Action Required		Yes/No/NA	Any Action Required	Finance Revenue & Capital	Y		Equality & Diversity	Na	Na	National Policy/Legislation	Y		Patient Experience	Na	Na	NHS Contract	Na	Na	Governance & Risk Management	Y		Human Resources	Na	Na	Terms of Authorisation	Y		Consultation/Communication	Na	Na	Human Rights	Na	Na	Other:	Na	Na	Carbon Reduction	Na	Na	If action required please state:					
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Previous Meetings

Please insert the date the paper was presented next to the relevant group

ECC	Audit Committee	Quality & Safety Committee	Finance & Investment Committee	Management Board	IM&T Strategy Committee	HR Committee	NED	Other
Na	May 17	Na	April 17	Na	Na	Na	Na	Na

Trust Board – 31st May 2017

Going Concern

Introduction

All public sector and commercial entities are expected to prepare their accounts on a 'going concern' basis and this expectation needs to be tested each year.

Background

Accounting standard IAS 1, Presentation of Financial Statements, requires that each year as part of the accounts preparation process management make an assessment of the entity's ability to continue as a going concern.

The Treasury's Financial Reporting Manual (FRM) sets out an interpretation of this standard which focuses on whether the service(s) provided by the entity is going to continue rather than whether the entity providing the service will continue to exist.

This means that the fact that a body is going to cease to exist does not affect its going concern status. The key consideration is whether the services the body is providing will continue to be provided. For example if a NHS trust is acquired by a foundation trust, the NHS trust remains a going concern if its assets will continue to be used to provide healthcare services although under the auspices of another NHS body.

Whilst it is unlikely that an NHS body will be determined not to be a going concern, this interpretation does not exempt management from undertaking a going concern review.

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.

In addition the Foundation Trust Annual Reporting Manual (FT ARM) states the following:

There is no presumption of going concern status for NHS foundation trusts. Directors must decide each year whether or not it is appropriate for the NHS foundation trust to prepare its accounts on the going concern basis, taking into account best estimates of future activity and cash flows.

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.

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.

A typical disclosure, based on guidance from the Accounting Standards Board, would read:

“After making enquiries, the directors have a reasonable expectation that the NHS foundation trust has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.”

This statement should be amended if the going concern basis is only adopted based on the interpretation in the FReM which focuses on the continued provision of services. Where there is fundamental uncertainty over the going concern basis (for instance, continuing operational stability depends on finance or income that has not yet been approved), or where the going concern basis is not appropriate, the directors will need to disclose the relevant circumstances and should discuss the basis of accounting and the disclosures to be made with their auditors.

Disclosures on going concern will impact throughout the annual report in terms of the overview and performance analysis, the governance statement, the accounting officers’ statement as well as the accounts themselves and it will therefore be important that the whole document tells a story.

Going concern basis for 2016/17 accounts

The management of the Trust has not nor does it intend to apply to the Secretary of State for the dissolution of the foundation trust and therefore the accounts should be prepared on a going concern basis.

In terms of the provision of services into the future; the Trust is one of the 37 statutory bodies cited in the published strategic plan for Greater Manchester, Taking Care of our Health and Social Care in Greater Manchester, and the Wigan Locality Plan states that commissioners want to ensure clinically and financially sustainable services within the hospital. The accounts should therefore be prepared on a going concern basis.

The draft operational plan and financial plan have been reviewed internally and issued to NHS Improvement. These plans do not identify any risk in terms of continuation of services and the accounts should therefore be prepared on a going concern basis.

The cash position of the organisation is the most critical element in terms of going concern and in terms of being able to meet its current liabilities over the next twelve month period. The view from the Department of Health is that as long as there is cash available to cover liabilities then NHS organisations remain a going concern. The Trust has agreed a two year fixed value contract with its main commissioner Wigan Borough Clinical Commissioning Group. This provides the Trust with monthly guaranteed cash receipts over the life of the contract. The Trust is forecasting a surplus of circa £12.6m for 2016/17, £8.9m over its plan for the financial year (primarily due to STF incentive funding) and a small planned deficit of £0.6m for 2017/18. The draft plan includes monthly income and expenditure, balance sheet, and cash flow and a review of the cash plans for the year, including sensitivity analysis, shows that there is sufficient cash in the plan to meet liabilities. The accounts should therefore be prepared on a going concern basis.

A review of the key factors that might cast significant doubt on going concern has been undertaken by the Senior Finance Team and this can be found in Appendix A along with the cash flow sensitivity analysis table.

Draft Going Concern Declaration

The draft going concern declaration for inclusion in the annual report and accounts is detailed below.

Based on all available evidence, the Directors of the Trust have a reasonable expectation that the NHS Foundation Trust has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In giving this opinion, the Trust recognises the challenging environment and has identified those risks which will require careful management. The Board has approved the Trust's 2017/18 and 2018/19 Annual Plans which have been submitted to NHS Improvement. Income and expenditure plans have been prepared using national guidance on tariff and inflationary factors with income based on agreements with commissioners. The Trust has been prudent in its assessment of efficiency targets, including cost improvement plans managed by a well-established Project Management Office, and believes that this forward plan provides a realistic assessment of the financial year ahead. Income and expenditure budgets have been set on robust and agreed principles, which mean that divisions should be able to provide high quality healthcare within the resources available, provided the cost saving targets are achieved.

Uncertainties exist in the current economic climate, however, these have been reduced by agreeing a number of contracts with Clinical Commissioning Groups, Local Authorities and NHS England for a further two years and these payments provide a reliable stream of funding minimising the Trust's exposure to liquidity and financing problems. Cash flow statements have been prepared using planned income and expenditure and a full range of sensitivities, re-modelled based on identified risks and reasonable mitigations which have been considered by the Audit Committee, external auditors and the Board.

Taking the above into account, the directors believe that it is appropriate to prepare the accounts on a going concern basis.

<i>Factors that might cast significant doubt on going concern</i>	<i>Trust response and consideration</i>
1. Financial conditions:	
a. poor NHS Improvement Use of Resources Score	Since the introduction of the Single Oversight Framework the Trust has been segmented into segment 2 which is for providers offered targeted support. Segment 2 is the second highest category.
b. necessary borrowing / working capital facilities / interim support have not been agreed	The Trust has previously secured capital funding totalling £30m via the Foundation Trust Financing Facility and repayment of these loans commenced in December 2016. The capital plan for the next planning round (2017/18 and 2018/19) does not include any significant investment and will be met by internally generated forecast cash reserves. The Trust has undertaken a sensitivity analysis of the operating cash headroom in the plan and is not planning any requirement for interim support.
c. existence of significant operating losses, historical and projected	<p>The Trust is reporting a trading surplus of £13.6m at the year end and reporting significant technical losses that relate to impairments. During the year the Trust over achieved its control total and has secured STF incentive funding of £4.6m which will increase the planned cash balance for the Trust in 2017/18.</p> <p>The Trust has agreed control totals for the next two years with NHS Improvement of (£0.7m) and £2.1m for 2017/18 and 2018/19 respectively. Receipt of STF of £6.4m in both years, dependant on meeting relevant criteria, has also been agreed.</p>
d. anticipated or actual major loss of commissioner income	<p>Wigan Borough CCG continues to introduce a number of demand management schemes which aim to reduce unscheduled care admissions and A&E attendances. The Trust is proactively working with the CCG to understand the impact of such schemes as a significant reduction in attendances or unscheduled admissions is yet to be seen. To mitigate this, the Trust continues to proactively seek to repatriate activity from surrounding organisations to grow its market share in outpatient and elective activity.</p> <p>For the next planning round (2017/18 and 2018/19) a fixed volume contract has been agreed with the Trust's main commissioner guaranteeing income and cash for the next 2 years.</p>
e. major cost improvement programme with high risk of non-achievement	<p>The Trust is planning a CIP of £14m in both 2017/18 and 2018/19 which equates to approximately 5% of operating expenditure.</p> <p>The Trust has a well-established PMO team leading the governance arrangements; which include a formalised monitoring progress comprising of, but not limited, to weekly Executive review, RAG assessment, Quality Impact Assessment and escalation.</p> <p>12 corporate efficiency schemes, each one with an executive lead, have been identified for 2017/18 and 2018/19. Delivery of the schemes will be monitored on and reported by a delivery board, to the Strategy Board and the Trust Board via the Finance and Investment</p>

Factors that might cast significant doubt on going concern	Trust response and consideration
	<p>Committee.</p> <p>The Trust could fall short of CIP delivery by up to 50% and still maintain cash balances for operational business.</p>
f. major losses or cash flow problems which have arisen since the balance sheet date	None
g. inability to repay loans when they fall due	The Trust has drawn capital loans from the Foundation Trust Financing Facility. The interest payment and principle payment relating to these loans have been included in a long term planning model and the Trust is confident in its ability to make the payments, based on the cash reserve headroom and the sensitivity analysis that has been undertaken as part of the review.
2. Operating conditions:	
a. loss of key management without replacement	All members of the Trust Board have been substantively in post for the duration of the financial year and successful interim arrangements were in place whilst the Medical Director was on secondment. A substantive appointment has now been made which commenced on 1st April 2017.
b. loss of key staff without replacement and/or labour difficulties	The Trusts staff retention levels overall are high in comparison with other Trusts; however in common with other Trusts there are challenges in the short-medium term in recruiting additional registered nursing and medical staff (in certain specialties) to support the move towards 7-day working. Areas of risk are escalated and monitored by Executive team.
c. significant failure to achieve Care Quality standards resulting in any restrictions on services provided	The Trust continues to provide services without CQC imposed restrictions.
d. fundamental changes in the market or technology to which the trust is unable to adapt adequately	The Trust has a significant capital investment programme for technology and is always looking to ensure its systems are up to date and future proof. It has a modern data centre with highly capable virtualisation technology, multiple future proof development platforms (such as SharePoint and QlikView) and has implemented a state of the art electronic patient record system (with sophisticated clinical capability) from Allscripts. All of these should mean we will have the capability to respond rapidly to changes in requirements.
3. Other conditions such as:	
a. serious non-compliance with regulatory or statutory requirements	The Trust has met all regulatory and statutory requirements of its Licence agreement.
b. pending legal or regulatory proceedings against the trust that may, if successful, result in claims that are unlikely to be satisfied	As a member of the NHSLA's Clinical Negligence for Trusts and its Risk Pooling Scheme for Trusts, the Trust is bound by the NHSLA's Membership Rules. In essence, the Trust must co-operate with the NHSLA who indemnify the Trust against claims covered under each scheme. For the most part this is for clinical negligence and personal injury claims. The Trust is

<i>Factors that might cast significant doubt on going concern</i>	<i>Trust response and consideration</i>
	aware of its limits of authority and action needed when dealing with claims. The Trust has a duty to conduct and report claims in accordance with the rules and reporting guidelines so as to ensure the Trust is covered for all such liabilities.
c. changes in legislation or government policy expected to adversely affect the trust	The Trust Board assesses all available government guidance and standards and has provided for required changes and associated financial consequence e.g. apprenticeship levy.

Cash flow sensitivity

	Apr-17 Plan	May-17 Plan	Jun-17 Plan	Jul-17 Plan	Aug-17 Plan	Sep-17 Plan	Oct-17 Plan	Nov-17 Plan	Dec-17 Plan	Jan-18 Plan	Feb-18 Plan	Mar-18 Plan	Apr-18 Est	May-18 Est
Cash (as per plan)	9,357	7,590	3,820	2,362	3,349	2,693	3,359	5,983	4,257	4,719	7,338	8,209	8,113	8,113
Underachievement of CIP (£5m pa)	(231)	(234)	(236)	(404)	(404)	(404)	(515)	(509)	(527)	(514)	(511)	(511)	(231)	(231)
Do not receive S&T Funding	(322)	(322)	(322)	(430)	(430)	(429)	(644)	(644)	(645)	(752)	(752)	(751)	(751)	(751)
Downside Cash Balance	8,804	6,481	2,153	(139)	14	(1,475)	(1,968)	(496)	(3,394)	(4,198)	(2,843)	(3,234)	(4,312)	(5,295)
Mitigations														
S & T Funding 2016/17	6,283													
Higher Actual Opening Cash	2,179													
Immediate pay freeze				33	33	33	33	33	33	33	33	33	33	33
Immediate non-pay freeze				42	42	42	42	42	42	42	42	42	42	42
Restriction on Transformation Funding (£1.5m)				167	167	167	167	167	167	167	167	167	167	167
Restriction on Capital Programme (50%)							193	155	248	457	371	370	370	370
Restriction on the use of reserves (50%)							119	119	170	153	119	50		
Total Mitigations to Date	8,462	8,462	8,462	8,704	8,945	9,187	9,740	10,256	10,915	11,766	12,497	13,159	13,529	13,899
Mitigated Cash Balance	17,266	14,943	10,615	8,565	8,959	7,712	7,772	9,759	7,520	7,568	9,654	9,925	9,217	8,604

*In December 2016 the Trust signed a 2 year block contract with its main Commissioner - Wigan Borough Clinical Commissioning Group. This provides the Trust with guaranteed monthly cash payment and the risk of the Trust running out of cash due to commissioner intentions is therefore eradicated.