

Meeting	Trust Board
Date of meeting	10 March 2022
Paper number	Enc I

Going Concern Paper 2021/22

For approval:		For discussion:	✓	For assurance:		To note:	
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Accountable Director	R D Toole, Chief Finance Officer		
Presented by	Stuart Bird, Deputy Director of Finance	Author /s	Stuart Bird Deputy Director of Finance Lynne Walden, Head of Financial Planning and Financial Services. Marie Hall, Deputy Head of Financial Services

Alignment to the Trust's strategic objectives (x)							
Best services for local people		Best experience of care and outcomes for our patients		Best use of resources	✓	Best people	

Report previously reviewed by		
Committee/Group	Date	Outcome
TME	16 February 2022	Noted
F&P	23 February 2022	Recommended for approval

Recommendations	Trust Board is asked to approve the Chief Finance Officer's recommendation that the Trust is a going concern.
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Executive Summary	<p>The concept of "going concern" is one of the fundamental principles underpinning the accounting regime used in preparation of our financial statements. Essentially it means the Directors believe we have the resources in place to remain viable for the foreseeable future. Directors should consider the specific events, conditions and factors that individually or collectively, might cast significant doubt on the going concern assumption.</p> <p>We must comply in the preparation of our annual accounts to the NHS Group Accounting Manual (GAM). The going concern section has been included in Appendix 1 for reference.</p> <p>We face a range of risks, and continue to be impacted financially and operationally by the COVID-19 pandemic.</p> <p>Financial planning for 2021/22 was split into two halves with H1 submitted on 26th June 2021 and H2 on 25th November 2021 resulting in a planned deficit for 2021/22 of £(1.9m) The latest full year forecast per month 9 reporting is that the Trust will deliver a full year deficit of £4.268m. No revenue support has been requested throughout financial</p>
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year 2021/22 due to high cash balances resulting from the current block payment regime.

Unless the forecast outturn improves to achieve break-even over the final quarter, 2021/22 will be the 9th consecutive year in which the Trust has not achieved its year breakeven duty. A continued breach will result in the requirement for a further referral by the external auditor to the Secretary of State. We have been in a cumulative deficit for over 11 years although historic revenue support loans were converted to PDC during 2020/21, strengthening the balance sheet.

In the NHSE&I breakeven duty guidance April 2018 an auditors responsibilities are defined as follows:

“The external auditors of NHS trusts have responsibilities under section 30 of the Local Audit and Accountability Act 2014 to report on unlawful matters by issuing a referral to the Secretary of State. External auditors are also required to follow the Comptroller and Auditor General’s Code of Audit Practice, issued by the National Audit Office (NAO), and have regard to the accompanying auditor guidance notes (AGNs). These are available on the NAO website and AGN07 explains the auditor’s responsibilities for reporting. Auditors generally consider a trust’s failure to meet the breakeven duty requirements to be an unlawful matter requiring a referral to the Secretary of State.”

The primary risk to going concern status is the underlying financial deficit and a resultant shortfall in cash to discharge liabilities.

It should be noted that the nationally funded block payment regime has been in place throughout 2020/21 and 2021/22 and the cash balance is now strong (£37.0m actual at month 9 and £27.2m forecast at month 12)

A facility to access cash support if required has remained in place throughout the pandemic in line with the standard NHSE&I process. All requests submitted in previous years in line with national policy have been approved. On this basis there is no reason to believe that support would cease to be available if required, or that the terms on which it is provided would change.

On the balance of assessment of the various risks, opportunities and uncertainties, the Chief Finance Officer recommends that the Trust considers itself to be a going concern in line with published guidance.

Risk											
Which key red risks does this report address?		What BAF risk does this report address?	BAF 7 – finance								
Assurance Level (x)	0	1	2	3	4	5	6	7	N/A	x	

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Financial Risk						
Action						
Is there an action plan in place to deliver the desired improvement outcomes?	Y		N		N/A	x
Are the actions identified starting to or are delivering the desired outcomes?	Y		N			
If no has the action plan been revised/ enhanced	Y		N			
Timescales to achieve next level of assurance						

Introduction/Background
<p>Accounting standard IAS1, Presentation of Financial Statements, requires each year as part of the accounts preparation process, management makes an assessment of the entity's ability to continue as a going concern. The Treasury's Financial Reporting Manual (FReM) interprets the requirements set out in IAS 1 (paras 25-26) as below:</p> <ul style="list-style-type: none"> • <i>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</i> • <i>However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up</i> • <i>Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements.</i> • <i>Where a body is aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the entity, these uncertainties must be disclosed. This may include for example where continuing operational stability depends on finance or income that has not yet been approved.</i> <p>The Going Concern Assessment is primarily derived from the historical financial position of the Trust, with an assessment of the future risks, opportunities and uncertainties, including for example any:</p> <ul style="list-style-type: none"> • Financial conditions <ul style="list-style-type: none"> ○ Historic financial performance ○ Future financial plan ○ Cost Improvement/Efficiency savings/ risk assessed delivery ○ Liquidity and ability to meet liabilities ○ Existing borrowing and access to borrowing • Operating conditions <ul style="list-style-type: none"> ○ Change in management structures ○ Change in commissioned services

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- Risk of non-compliance with Terms of Authorisation

Issues and options

We are currently reviewing the 2021/22 underlying exit position and are preparing both a detailed plan for 2022/23 and a higher level 3 plan up to financial year 2024/5 which will include assumptions around the on-going provision of services. Of significance in relation to going concern are:

- We are a key partner in the Herefordshire and Worcestershire ICS which sets out the vision for healthcare services in the two counties in the medium term, and in line with NHS policy is seeking to become an ICB through the NHSE/I assurance process.
- We are actively working with system partners to plan the restoration of services following the COVID-19 pandemic.
- We will enter into formal contracts for the provision of services for 2022/23
- The Trust's bid for £15m of national capital funding over 2 years (2021/22 and 2022/23) to redevelop Urgent and Emergency Care on the WRH site was approved nationally.

Other Financial Considerations

- The Trust has experienced a challenging financial position over recent years, with historic performance showing substantial operating losses as set out below:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Estimated 2021/22
	£000	£000	£000	£000	£000	£000	£000
Breakeven duty in-year financial performance	(59,831)	(28,748)	(52,562)	(68,790)	(80,844)	6,652	(4,268)
Breakeven duty cumulative position	(118,267)	(147,015)	(199,577)	(268,367)	(349,211)	(342,559)	(346,827)
Operating income	368,981	403,348	400,918	411,966	443,722	559,003	579,566
position as a percentage of operating income	(32.1%)	(36.4%)	(49.8%)	(65.1%)	(78.7%)	(61.3%)	(59.8%)

- This shows that the Trust is currently forecasting to fail to achieve its statutory duty to break even.
- All historic revenue loans required to maintain operational expenditure were converted to PDC during 2020/21. There have been no requests for revenue support in 2021/22.
- The Trust continues to repay its three Normal Course of Business (NCB) capital loans following the PDC conversion in 2020/21. There will be two repayments due in 2022/23; Sept 2022 and March 2023 totalling £1.2m.
- The cash balance at the end of Month 9 was +£37.0m and forecast year end position is +£27.2m

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- An operational plan for 2022/23 is being prepared for submission to NHSE/I on 17 March, this plan will set out planned income, activity, expenditure and workforce plans. Unless there is a material change in the national funding architecture this is anticipated to reflect a deficit position, and exposure to risks which will require mitigation.
- A key consideration is that we have the cash resources to meet our obligations as they fall due in the foreseeable future. There is a comprehensive cash management and forecasting process in place, including daily, weekly and monthly cash flow forecasting and careful working capital management.
- Access to cash support remains available if required through monthly requests to the Department of Health and Social Care in line with the standard NHSE&I process.

Conclusion

Assessment of Going Concern

Whilst we remain in a recurrent financially challenged position, and face a number of risks and uncertainties, there is clear evidence of continued provision of services being planned by both NHSE/I, Commissioners and within the Trust itself.

On the balance of assessment of the various risks, opportunities and uncertainties, the CFO recommends that the Trust considers itself to be a going concern in line with the accepted definition for public sector bodies. Neither NHSE/I, nor DHSC have deemed the going concern basis to be inappropriate for the Trust.

Recommendations

Trust Board is asked to approve the Chief Finance Officer's recommendation that the Trust is a going concern.

Appendices – Appendix A – GAM extract

Appendix A – Going Concern Extract – Group Accounting Manual 2021-22

4.18 The FReM notes that in applying paragraphs 25 to 26 of IAS 1, preparers of financial statements should be aware of the following interpretations of Going Concern for the public sector context.

4.19 For non-trading entities in the public sector, 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.

4.20 A trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up.

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4.21 Sponsored entities whose statements of financial position show total net liabilities must prepare their financial statements on the going concern basis unless, after discussion with their sponsor division or relevant national body, the going concern basis is deemed inappropriate.

4.22 Where an entity ceases to exist, it must consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern in its final set of financial statements.

4.23 While an entity will disclose its demise in various areas of its Annual Report and Accounts such as in the Performance Report and cross reference this in its going concern disclosure, this event does not prevent the accounts being prepared on a going concern basis or give rise to a material uncertainty in relation to the going concern of the entity.

4.24 DHSC group bodies must therefore prepare their accounts on a going concern basis unless informed by the relevant national body or DHSC sponsor of the intention for dissolution without transfer of services or function to another entity.

4.25 Where a DHSC group body is aware of material uncertainties in respect of events or conditions that may bring into question the going concern ability of the entity, these uncertainties must be disclosed.

4.26 As the continued provision of service approach, per paragraph 4.22, applies to DHSC group bodies, material uncertainties requiring disclosure will only arise in very exceptional circumstances.

4.27 Should a DHSC group body have concerns about its “going concern” status (and this will only be the case if there is a prospect of services ceasing altogether), or whether a material uncertainty is required to be disclosed (which will only arise in exceptional circumstances), it must raise the issue with its sponsor division or relevant national body as soon as possible.

4.28 Consideration of risks to the financial sustainability of the organisation is a separate matter to the application of the going concern concept. Determining the financial sustainability of the organisation requires an assessment of its anticipated resources in the medium term. Any identified significant risk to financial sustainability is likely to form part of the risks disclosures included in the wider performance report, but is a separate matter from the going concern assessment.