

Consideration of 'Going concern Status' 2015/16 Accounts

1. Introduction

The annual accounts of the CCG are prepared on the basis that the organisation is a 'going concern' and that there is no reason why it should not continue in operation on the same basis for the foreseeable future. Within the accounts, the CCG is required to make a clear disclosure that the management and those charged with governance have considered the position, and that preparation of the accounts on this basis is, in their opinion, given the facts at their disposal, correct. Where management are aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the CCG, these should be disclosed.

The Department of Health Group Manual for Accounts 2015/16 has the following recommendation as the standard accounting policy:

The CCG's accounts have been prepared on a going concern basis.

The Government Financial Reporting Manual (FReM) (5.2.8(i)) notes that in applying paragraphs 25 to 46 of International Accounting Standard (IAS) 1, preparers of financial statements should be aware of the following interpretations of Going Concern for the public sector context.

- *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. 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.*
- *Sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed inappropriate.*
- *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 in its final set of financial statements.*
- *Should a NHS body have concerns about its "going concern" status (and this will only be the case if there is a prospect of services ceasing altogether) it should raise the issue with its sponsoring authority as soon as possible.*

2. Criteria

IAS 1 requires management to make an assessment of the entity's ability to continue as a going concern when preparing the financial statements. The standard stipulates that in assessing if the going concern assumption is appropriate the management should take into account all available information about the future.

The period of review covered should be at least 12 months from the date of approval of the financial statements, but it should not be limited to the same. The assessment of the validity of the going concern assumption involves judgement about the outcome of events and conditions which are uncertain. The uncertainty increases significantly the further into the future a judgment is being made about the outcome of an event or condition.

Therefore, usually the 12 month period from the balance sheet date is considered appropriate.

Financial statements should not be prepared on a going concern basis if management determines after the end of the reporting period either that it intends to liquidate the entity or to cease trading or that it has no realistic alternative to do so. In these circumstances the entity may, if appropriate, prepare its financial statements on a basis other than that of a going concern.

The Financial Reporting Council, in their publication 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009,' has set out a number of areas Boards, or in CCGs, Governing Bodies, may wish to consider. Those relevant to CCGs in the NHS are as follows:

- Forecast and budgets;
- Timing of cash flows;
- Contingent liabilities;
- Products, services and markets;
- Financial and operational risk management;
- Financial adaptability;
- Documentation.

Where there are particular points to report or risks, these areas are reported to the Quality and Finance Committee, as part of the monthly reporting and Governing Body, at the public meetings through the year, but some further assumptions for the future are described below.

3. Financial Assumptions for 2015/16

3.1 Outturn

The forecast financial outturn for 2015/16 is a deficit of £6.3m, which equates to (1.6%), significantly away from the original plan of a 1% surplus of £4.0m. This position has been reached primarily as a result of activity being significantly above contract at the CCG's main acute Trust, York Teaching Hospitals NHS FT. This is mainly in unplanned care and related to the under-delivery of the savings associated with the Better Care Fund. The CCG has also experienced increased spend on Prescribing and a higher than planned spend on Mental Health Out of Contract placements.

Within this there continues to be close contract management, the CCG has also negotiated a number of year-end positions with providers, in particular with York Teaching Hospital NHS Foundation Trust and Leeds Teaching Hospital NHS Trust, two of the CCG's biggest providers, non-recurrent measures, including the release of the local Continuing Healthcare provision, and delivery of QIPP. Where there is no agreed year-end position with providers the CCG will use provider forecast positions in line with their accruals statements where provided apart from those that we are disputing. This is in line with current accounting policies.

A letter was sent from the CCG's auditors, Mazars, on 22 January 2016 which was a report to the Secretary of State for Health under Section 30 of the Local Audit & Accountability Act 2014 for the anticipated or actual breach of financial duties. This is noted in 'Note 1.1 Going Concern' of the CCG's Accounting Policies but does not affect the CCG preparing the accounts on a going concern basis. This position has been further reinforced by NHS England who have confirmed that the CCG's deficit outturn does not affect its ability to operate as a going concern.

The breach of the statutory financial duties moved the CCG into a category of not assured on the national assurance framework and as a result, although the CCG is still within the scope of the overall framework, it is now operating within the not assured category and is required to deliver the financial recovery and turnaround plan to avoid further deterioration within the assurance regime.

3.2 Financial Plan 2016/17

The CCG submitted the first draft financial plan for 2016/17 on 8 February 2016 and a further revised draft on the 2 March in line with national guidance. The latest version is proposed alongside this report to the Governing body. All plans include a number of assumptions that should be taken into account:

3.2.1 Business Rules

The business rules published in the planning guidance for 2016/17 have been built into the financial plan as follows:

- 1% Surplus
- 0.5% Contingency
- 1% Non-Recurrent spend uncommitted
- Reinvestment of balance of non-elective marginal rate
- Reinvestment of readmissions

It is important to note that the bulk of the marginal rate and readmissions funds are being reinvested into core acute services as part of the baseline 2016/17 agreed contract. If these amounts are not available for this purpose, the consequence would be a further deterioration in the CCG's financial position and destabilisation of the York Teaching Hospital NHS Foundation Trust's (YTHFT) as well. A small amount has currently been set aside to provide for both the national Continuing Healthcare risk pool and the Virtual Clinical Network.

3.2.2 Revenue Resource Limit

The CCG based its plan on the following notified allocations.

Allocation	£'m
Core	394.0
Primary Medical	40.1
Sub-total	434.1
Running Cost allowance	7.5
Total	441.6

The overall Revenue Resource Limit is therefore £434.1m, although the re-payment of the 2015/16 deficit will be the first draw down against this.

The Primary Medical allocation in relation to the CCG's delegated Primary Care Co-Commissioning currently excludes the non-recurrent Public Health adjustment of £1.5m received in 2015/16. This has been formally escalated to NHS England to confirm that this historical arrangement will continue, which is essential to meet these budgets. Although it has been communicated to the CCG by the local NHS England Area Team that this will be done again and on a recurrent basis, there has been no formal notification of this at the time of writing this report.

The CCG has five years of allocations notified, three fixed and two indicative which allows the organisation to plan in the longer term.

3.2.3 Planning Assumptions

The following requirements for 2016/17 have been built into the financial plan based on a combination of the planning guidance and local decisions:

Area of Plan	Assumption	2016/17
Acute	Demographics	1.0%
	Pay and Prices	2.4%
	Efficiency	(2.0%)
	CNST	0.7%
Community	Demographics	0%
	Pay and Prices	0%
	Efficiency	0%
Mental Health	Demographics	0%
	Pay and Prices	3.1%
	Efficiency	(2.0%)
Other Services (Incl. CHC and FNC)	Demographics	0%
	Pay and Prices	1.5%
	Efficiency	0%
Prescribing	Demographics	0%
	Pay and Prices	3.28%
	Efficiency	0%

The following additional amounts have also been identified:

Acute

YTHFT – estimated £1m non-demographic growth to acknowledge that we are currently in the middle of contract negotiations with the Trust. At the time of writing this report it is likely that this £1m will actually be absorbed by the above when actually applied on an individual HRG basis, but this has not been worked through completely at this level. The gap in opening positions for SUS activity was circa £1.5m and related to slightly differing growth assumptions across a number of points of delivery.

Other

The CCG has provided for a contract reserve of £205k to cover the potential outcome of 2016/17 contract negotiations.

3.2.4 Cost Pressures and Investments

A number of further recurrent cost pressures and recurrent and non-recurrent investments not identified above are also included in the financial plan and are aligned with service priorities. In particular, but not limited to the following:

Description	£'m
Enhanced Tariff Option	0.5
GP IT	1.0
CAMHS (Futures in Mind)	0.1
CHC National Risk Pool	0.4
Community contract inflation	0.7
Primary Care Home development	0.4

3.2.5 Financial Sustainability

The impact of the above is that the CCG would face a financial challenge of £34.1m in 2016/17 if it was to fully meet all the business rules in year and recover the deficit from 2015/16.

The scale of this is such that the CCG has therefore had to consider and plan for a much longer phased recovery the financial plan includes a four year recovery period. This plan is premised on delivering QIPP and BCF savings and other mitigations and non-recurrent measures equating to £13.8m (3.5%) in 2016/17, this will result in the CCG reporting a deficit of £16.4m.

This is a draft of the plan and is subject to Governing Body and NHS England approval. However, the CCG has strong support from NHS England, the Council of Representatives and local stakeholders for the principles on which it is basing its financial recovery plan:

1. Plans must be realistic & deliverable
2. 3-4% savings per annum maximum
3. Outline strategy backed by detailed plans – ‘top-down & bottom-up’
4. No short term measures that result in long term pressure
5. Transformational and transactional plans both required
6. Multi-year recovery timeframe
7. Flexibility on NHS England business rules during recovery period
8. Must support & deliver the operational plan & enable realisation of the CCG vision
9. Aim to reduce overall cost in the system & with providers
10. Stabilisation period leading to financial sustainability
11. System focus – work in partnership & with stakeholders
12. Accountability for delivery critical

4. Cash Flows and Liquidity

The cash position is reported to the Quality and Finance Committee monthly and Governing Body at each public meeting. In addition, detailed cash flow monitoring and forecasting is in place with NHS England on a monthly basis. The CCG met its cash requirements for 2015/16 and is planning to continue this on an on-going basis.

There are no anticipated risks with regards to cash or the overall liquidity position of the CCG as a result of the pressures outlined earlier in this report.

5. Contingent Liabilities

There were no known contingent liabilities in 2015/16.

6. Services

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 important evidence of going concern.

The CCG is not aware of any plans that would fundamentally affect the services provided to an extent that the CCG would not continue to be a going concern.

7. Risks and Adaptability

The risks attached to the delivery of the financial programme are summarised below in line with the Financial Plan. The detailed financial risks are captured and monitored in the Covalent system and have been recently fully reviewed and updated.

Area of Plan	Risk	Mitigation
Acute Services	Difference in contract baselines with York Teaching Hospital NHS Foundation Trust (YTHFT) Contract negotiations are currently further ahead than in previous years and although there is still an overall gap the bulk of this is within the Non-SUS part of the contract and relates largely to growth assumptions.	Negotiation will continue to ensure the contract signed is realistic and affordable.
Prescribing	Prescribing overspend Growth, pressure, NICE and price assumptions have been made in line with national and Medicines Management advice but the risk remains of overspend due to actual prescribing being in excess of this or unforeseen pressures arising in year.	Detailed monthly monitoring is already in place and the CCG is in the process of developing practice information packs to help support primary care awareness and management of this area of spend.
Mental Health	The assessment of out of contract costs following the move to the new provider is still on-going with potential deterioration in expected costs for 2016/17 onwards.	Monthly Contract Management Board meetings with Tees Esk and Wear Valleys NHS Foundation Trust. Focussed piece of internal audit work to look at this specific area.
BCF, QIPP & savings	Under-delivery of BCF and QIPP schemes Although plans have been identified and developed a number of these remain at a high level and there is still an element unidentified.	With regards to the BCF there is a contingency built into funds, although the exact amount still needs to be agreed with partners. There will continue to be monthly detailed analysis at Quality and Finance Committee and more advanced reporting is in

Area of Plan	Risk	Mitigation
Continuing Care	<p data-bbox="406 185 847 255">Retrospective cases payments greater than risk pool</p> <p data-bbox="406 293 919 654">A risk pool has been created nationally through a top-slice of funding included in CCG allocations which is deemed sufficient to deal with payment of retrospective cases in 2016/17. This is the final year for this arrangement but there is a risk that if the risk pool nationally is insufficient if the policy changes to allow claims to go back even further.</p>	<p data-bbox="954 147 1142 181">development</p> <p data-bbox="954 185 1430 398">The CCG is actively involved with the management of the contract processing the retrospective claims and will receive information nationally on the status of the risk pool.</p>

These are not significant enough to impact on the CCG's ability to trade for the foreseeable future as a going concern. Adaptability is the organisation's ability to alter its plans to enable it to take effective action to respond to unexpected needs or opportunities. The CCG has robust policies and procedures in place, alongside a very high proportion of its expenditure covered by contractual arrangements. This gives the CCG considerable protection against unexpected events.

8. Documentation

The Quality and Finance Committee and Governing Body receive regular reports on the financial performance of the CCG which gives considerable assurance and documentary evidence of performance. Other documentation includes risk register reviews, Draft Financial Plan, Final Financial Plan, monthly QIPP reports and ad-hoc reports and information as required. The CCG also submits monthly information to NHS England as part of the CCG assurance process.

9. Recommendation

Having considered the position as set out above, it is recommended that management prepare the annual accounts for 2015/16 on a going concern basis.