Consideration of 'Going concern Status' 2014/15 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 2014/15 has the following recommendation as the standard accounting policy:

> *The CCG's accounts have been prepared on a going concern basis.*
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> *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.*
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> - *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 an 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.*

This paper also aims to answer the questions raised by the external auditors as part of their work relating to director declarations.

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 2014/15

3.1 Outturn

The financial outturn for 2014/15 is a surplus of £3.85m (1%), significantly higher than the original plan of £2.09m (0.57%). This position has been reached through close contract management and negotiation of year-end positions with York Teaching Hospital NHS Trust and Yorkshire Ambulance Service, non-recurrent measures, including the return of the national Continuing Healthcare retrospective provision, and delivery of QIPP. Where there is no agreed year-end position with providers the CCG has used provider forecast positions in line with their accruals statements where provided apart from those that we are disputing. The total amount currently being disputed is £442k.

3.2 Financial Plan 2015/16

The CCG Governing Body approved the financial plan for 2015/16 at its meeting on 7 May 2015. The plan included a number of assumptions that should be taken in to account:

3.2.1 Business Rules

There were a number of business rules published in the planning guidance for 2015/16 which have been built into the financial plan as follows:

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

3.2.2 Revenue Resource Limit

The CCG has based its plan on published notified allocation of £384.2m, including the Better Care Fund allocation, together with the further known adjustments that have not yet been formally notified, but are part of the latest national financial model as follows:

- 2014/15 increased surplus - £1.8m
- Other 2014/15 allocation changes – (£0.1m)
- Enhanced Tariff Option - £1.1m

The overall Revenue Resource Limit is therefore £387.0m.

No account has been made for the impact of Primary Care Co-Commissioning, which would further increase this by an additional £40.2m.

3.2.3 Planning Assumptions

The following requirements for 2015/16 have been built into the financial plan based on a combination of the planning guidance and local decisions:

Area of Plan	Assumption	2015/16
Acute	Demographics	1.4%
	Pay and Prices	1.9%
	Efficiency	(3.8%)
Community	Demographics	0%
	Pay and Prices	1.9%
	Efficiency	(3.8%)
Mental Health	Demographics	0%
	Pay and Prices	0%
	Efficiency	0%

Area of Plan	Assumption	2015/16
Other Services (Incl. CHC and FNC)	Demographics	0%
	Pay and Prices	3.0%
	Efficiency	0%
Prescribing	Demographics	0%
	Pay and Prices	4.0%
	Efficiency	0%

Following the announcement of the Enhanced Tariff Option those organisations that select this option will be subject to a reduced efficiency requirement of 3.5%. This will effectively be implemented through a new tariff, to be issued. We have assessed the impact of this to be around £464k, which is more than covered by the increased allocation (£1.1m) in relation to this.

3.2.4 Cost Pressures and Investments

A number of recurrent cost pressures and recurrent and non-recurrent investments are included in the financial plan and are aligned with service priorities.

3.2.5 Financial Sustainability

The impact of the above is that the CCG faces a financial challenge of £19.2m in 2015/16. Better Care Fund and QIPP schemes are well developed and are planned to save £7.1m and £3.1m respectively.

The CCG has therefore had to consider and planned for a series of mitigations and non-recurrent measures to bridge the remainder. These include the use of the contingency, changes to discretionary funding / investments and an assumption around further contract management that total £7.8m.

This leaves an unmitigated gap of £1.2m for which there are currently no plans and the CCG will need to work on further proposals to bridge this.

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 2014/15 and is planning to do so on an on-going basis.

There are no anticipated risks with regards to cash or the overall liquidity position of the CCG.

5. Contingent Liabilities

There were no known contingent liabilities in 2014/15.

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.

Area of Plan	**Risk**	**Mitigation**
Acute Services	Specialised commissioning Issues relating to the correct distribution of resource relating to specialised services have continued through 2014/15 and further adjustments may be required.	The CCG has made provision for this.
Acute Services	Contract overtrade The CCG has made a number of growth and activity assumptions that it considers reasonable, but there is a risk that activity exceeds this or issues arise in year that haven't been planned for.	Monthly detailed analysis and contract reconciliations done by contracting team followed by monthly Contract Management Board meetings with relevant Trusts will ensure any issues are identified and mitigated early.
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, ~£0.5m, this is not material.	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 invested in additional Medicines Management resource in 2014/15, which is now embedded.
BCF and QIPP	Under-delivery of BCF and QIPP schemes Although plans are clearly identified and developed the level of ambition is high and relatively unproven.	With regards to the BCF there is a contingency built into each in the form of the performance fund that would not need to be created should a scheme not be effective. This equates to £2m for the CCG. Monthly detailed analysis of QIPP delivery followed by monthly Quality and Finance Committee.
Continuing Care	Retrospective cases payments greater than risk pool 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 2015/16. There is a risk that if the risk pool nationally is insufficient that CCGs will be asked to contribute further.	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.

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 quarterly 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 2014/15 on a going concern basis.