Introduction

The Audit Committee is requested to consider and approve the attached report that presents the case that the North East Ambulance Service NHS Trust has prepared its accounts on a “going-concern” basis. The Committee is also requested to recommend this view to the Trust Board at the time it adopts the audited Accounts for 2008/2009.

Background

NHS Bodies are statutorily obliged to comply with the determination and directions given by the Secretary of State for Health in the preparation of their annual accounts and report. This direction is provided within the Manual for Accounts which also takes into consideration UK GAAP conventions.

One such requirement is that the accounts are prepared on a going-concern basis. This is defined in the public sector as follows:

- 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.

Additional guidance is also provided by the Audit Commission in their publication “Going Concern – Guidance for NHS Trusts”, which is appended. Here this is defined as the fundamental principle in the preparation of financial statements, under which an entity is ordinarily viewed as continuing in business for the foreseeable future. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Key Issues to Consider

Historical and Current Financial Performance

North East Ambulance in it’s current configuration has only been operational since 1st July 2006. However current and previous financial performance has always shown a surplus as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>00/01</th>
<th>01/02</th>
<th>02/03</th>
<th>03/04</th>
<th>04/05</th>
<th>05/06</th>
<th>06/07</th>
<th>07/08</th>
<th>08/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus £’000</td>
<td>5</td>
<td>17</td>
<td>304</td>
<td>28</td>
<td>46</td>
<td>558</td>
<td>122</td>
<td>350</td>
<td>2,249 Pre-audit</td>
</tr>
</tbody>
</table>

Future Planned Financial Performance

In terms of future financial performance the Trust has prepared a comprehensive Financial Strategy to cover the five year period 2009/10 to 2013/14 approved at the March Trust Board. The strategy plans for the Trust to make surpluses in each of the five years as detailed below.

<table>
<thead>
<tr>
<th>Year</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus £’000</td>
<td>2.1m</td>
<td>4.5m</td>
<td>2.9m</td>
<td>3.3m</td>
<td>2.5</td>
</tr>
</tbody>
</table>

All the assumptions on which the plan is based are detailed in the Strategy, however some key assumptions to delivering the plan are as follows:

- Services will continue to be commissioned in line with current service provision and an inflation uplift of 1.8% 09/10 to 11/12 and 2.3% thereafter.
- Activity growth of 2.28% for A&E in 09/10 and 10/11 reducing to 1% in 11/12 and nil thereafter.
- Incorporating national issues/initiatives such as DoH Taking Healthcare to the Patient.
- Applying for FT status in 2009/10 with a view to adopting in 2010/11
• Local issues within the NEAS patch, e.g. Hazardous Response Team (HART), Single Point of Access, Backup Control etc.
• Pay to increase by 2.25% 09/10 and 10/11 (as per NHS pay agreement) thereafter 2.8%, incremental drift at 0.8%.
• Non pay inflation to increase as per the NHS Health Service Cost Index.
• Contributions from Income Generation, GP out of Hours, MPET and emergency planning.
• The Trust meets its Cost Improvement Programme
• The Trust achieves its Capital Investment Strategy and revenue implications

The Audit Commissions guidance on Going Concern status for Trusts provides a list of conditions that if not met could pose a business risk to the organisation. These risks are detailed below with the Trusts position also detailed.

**Financial Risks:**

<table>
<thead>
<tr>
<th>Condition</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net asset or net current liability position.</td>
<td>Net current asset position of £1,234K</td>
</tr>
<tr>
<td>Necessary borrowing facilities have not been agreed (including agreed financial support).</td>
<td>Borrowing facilities have been agreed with SHA and DoH.</td>
</tr>
<tr>
<td>Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment or excessive reliance on short-term borrowings to finance long-term assets.</td>
<td>No fixed term borrowing approaching maturity. Loan repayments incorporated in expenditure plans. No reliance on borrowings to fund long-term investments.</td>
</tr>
<tr>
<td>Major debt repayment falling due where refinancing is necessary to the trust’s continued existence.</td>
<td>No major debt requiring refinancing.</td>
</tr>
<tr>
<td>Major restructuring of debt.</td>
<td>No restructuring of debt required or predicted.</td>
</tr>
<tr>
<td>Indications of withdrawal of financial support by debtors and other creditors.</td>
<td>No financial support required.</td>
</tr>
<tr>
<td>Negative operating cash flows indicated by historical or prospective financial statements.</td>
<td>No historical negative cash flows and non anticipated.</td>
</tr>
<tr>
<td>Adverse performance against Monitor key financial ratios.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Substantial operating losses.</td>
<td>No operating losses sustained, surpluses have been made in the past and predicted in the future.</td>
</tr>
<tr>
<td>Major losses or cash flow problems which have arisen since the balance sheet date.</td>
<td>No such losses or cash flow problems.</td>
</tr>
<tr>
<td>Arrears or suspension of PDC payments.</td>
<td>All PDC payments made by due dates.</td>
</tr>
<tr>
<td>Inability to pay creditors on due dates.</td>
<td>Trust pays creditors on due dates as demonstrated by the BPPC.</td>
</tr>
<tr>
<td>Inability to comply with the terms of loan agreements.</td>
<td>Terms of loan agreement complied with.</td>
</tr>
<tr>
<td>Reduction in normal terms of trade credit by suppliers.</td>
<td>No changes made – Trust has excellent BPPC performance.</td>
</tr>
<tr>
<td>Change from credit to cash-on-delivery transactions with suppliers.</td>
<td>No changes made with suppliers.</td>
</tr>
</tbody>
</table>

**Operating Risks:**

<table>
<thead>
<tr>
<th>Condition</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of key management without replacement.</td>
<td>All key management staff are replaced as required.</td>
</tr>
<tr>
<td>Loss of key staff without replacement.</td>
<td>All key staff are replaced as required.</td>
</tr>
<tr>
<td>Staffing difficulties or shortages of important supplies.</td>
<td>None anticipated.</td>
</tr>
</tbody>
</table>
Other Risks:-

<table>
<thead>
<tr>
<th>Risk</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-compliance with capital or other statutory requirements.</td>
<td>All statutory targets met.</td>
</tr>
<tr>
<td>Pending legal or regulatory proceedings against the trust that may, if successful, result in claims that are unlikely to be capable of being satisfied.</td>
<td>There are no legal claims that if successful could not be met. All potential claims are planned for.</td>
</tr>
<tr>
<td>Changes in legislation or government policy expected to adversely affect the entity.</td>
<td>No changes anticipated in the current financial year.</td>
</tr>
</tbody>
</table>

Conclusions

When approving the accounts, the Audit Committee and Board must consider which of the three scenarios detailed below is the most appropriate

- the body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
- the body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;
- the body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.

From the assessment undertaken it is management’s view that based on the following:-

- the Trust has a history of excellent financial performance
- future financial plans suggest a profitable and liquid organisation
- there are no significant financial, operational or other risks that would jeopardise the Trusts continuing operation (as supported by the current and previous Assurance Framework)

that the Trust is clearly a going concern and it’s accounts have been produced on that basis.

Recommendations

The Audit Committee is requested to approve this report and recommend to the Board that the Accounts have been prepared on a “going concern” basis.

Judith Hurrell
Head of Financial Services, Risk and Claims Management
27th May, 2009
Appendix 1

Extract From the Audit Commission Publication – “Going Concern: Guidance For NHS Trusts”

Background

1 The accounting concept of going concern refers to the basis of measurement of an organisation’s assets and liabilities in its accounts (that is, the basis on which those assets and liabilities are recorded and included in the accounts). The going concern assumption is a fundamental principle in the preparation of financial statements, under which an entity is ordinarily viewed as continuing in business for the foreseeable future. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the 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.

2 NHS trusts are required to prepare their accounts in accordance with the relevant accounting rules, which are set out in the Accounting Standards Board’s Financial Reporting Standards (FRSs), as interpreted by the NHS trust manual for accounts. The requirement to prepare accounts on a going concern basis is set out in FRS18: Accounting Policies, paragraphs 21 and 23 of, which state:

   'An entity should prepare its financial statements on a going concern basis, unless:

   (a) the entity is being liquidated or has ceased trading; or

   (b) the directors have no realistic alternative but to liquidate the entity or to cease trading,

   in which circumstances the entity may, if appropriate, prepare its financial statements on a basis other than that of a going concern.'

   'When preparing financial statements, directors should assess whether there are significant doubts about an entity’s ability to continue as a going concern.'

3 Auditors will, as part of their audit of the accounts, consider what the directors have done to satisfy themselves that the accounts should be prepared on a going concern basis. How auditors do this is set out in the International Standard on Auditing 570 (United Kingdom and Ireland) (ISA 570 (UK&I)): Going Concern.

4 ISA 570 (UK&I) differentiates between 'those charged with governance' and 'management'. It defines 'those charged with governance' as being those who are accountable for ensuring that the entity achieves its objectives, and for the quality of its financial reporting and reporting to interested parties. For trusts, this definition will apply formally to the board, but in practice it is applied to the audit committee, acting on behalf of the board. It is for individual trusts to decide the most appropriate arrangements for them. The ISA (UK&I) defines ‘management’ as those persons who perform senior managerial functions. For the purposes of going concern, in the NHS this definition would include the chief executive as the accountable officer and the director of finance.

How is this applicable to NHS trusts?

5 In preparing their accounts in accordance with the manual for accounts, trusts must consider whether the going concern assumption is appropriate. However, the National Health Service (Residual Liabilities) Act 1996 (as amended) establishes arrangements whereby the property, rights and liabilities of a trust are transferred to another public entity if the body is dissolved or merged with another health body. There is, therefore, the presumption that assets will continue to be held to enable operational activity to continue uninterrupted and that all liabilities would be paid in the event of a trust dissolving and that, therefore, a trust’s activities should be recorded in the accounts as a going concern.
Many of the issues relevant to going concern are also relevant in considering a trust’s financial standing and its ability to achieve its break even duty. Consequently, it is appropriate to consider financial performance, including the effectiveness of financial recovery plans and the implications of possible restructuring on future income flows and future break even performance.

The National Health Service (Residual Liabilities) Act 1996 does not apply to foundation trusts. Therefore, trusts preparing for, or aspiring to foundation trust status may need to pay particular attention to going concern issues. In the event that a foundation trust is dissolved by Monitor using the powers under section 25 of the Health and Social Care (Community Health and Standards) Act 2003, any property or liabilities of the trust may be transferred to another foundation trust, a PCT, an NHS trust or the Secretary of State. Such a transfer may not be immediate, potentially resulting in the short-term discontinuation of services and default on liabilities. Furthermore, assets may be re-valued downwards on transfer where the view is taken that particular services or activities are to be discontinued. Therefore, an aspiring foundation trust board needs to consider any future events that could adversely impact its activities, including its ability to achieve and maintain a level of performance to meet the risk criteria established by Monitor. It is also a discipline which will be required when the trust operates as a foundation trust.

The remainder of this paper concentrates on the going concern issues that board members and management of aspiring foundation trusts will need to consider. It may also be of interest to foundation trust non-executives.

What do NHS trusts need to do?

Management

To comply with FRS18, management must, in preparing the annual statement of accounts, undertake an assessment of the trust’s ability to continue as a going concern. Paragraph 5 of ISA 570 (UK&I) states:

‘there may be no explicit requirement for management to make a specific assessment of the entity’s ability to continue as a going concern. Nevertheless, since the going concern assumption is a fundamental principle in the preparation of the financial statements, management has a responsibility to assess the entity’s ability to continue as a going concern even if the financial reporting framework does not include an explicit responsibility to do so.’

In making this assessment, management should take into account all information about the future that is available at the time at which the judgement is made. As a minimum, this assessment should cover at least a 12-month period from the date of approval of the accounts, although this period will need to be extended where management is aware of events and related business risks further in the future that may cast doubt on the going concern assumption. If the assessment covers a shorter period, this should be disclosed in the financial statements. The degree of consideration will depend on the facts in each case. ISA 570 (UK&I) states:

‘When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.’

Management will need to consider not only the trust’s performance within the existing NHS trust regime, but also its likely performance against Monitor’s risk ratings:

- financial risk – where the trust’s performance against the key financial performance criteria indicate a financial risk rating of 1 or 2, management would need to consider the possibility of an intervention by Monitor under section 25 of the Health and Social Care (Community Health and Standards) Act 2003;
• governance risk – where the trust could potentially have a red governance risk rating, management would need to consider the possibility of intervention;
• mandatory services risk – a potential red mandatory services risk rating would also require consideration of the possibility of intervention.

12 Particularly for financial risks, this may require a significant degree of additional analysis as the criteria applied to foundation trusts, such as liquidity and financial efficiency, will not necessarily be measured within the NHS trust regime. Management would then need to form a view on the trust’s ability to continue as a going concern in the longer term.

13 ISA 570 (UK&I) also includes a list of example events or conditions, which may give rise to business risks that individually or collectively, may cast significant doubt about the going concern assumption. The list at Appendix 1 draws from those examples and identifies issues that would be relevant to aspiring foundation trusts (and indeed to foundation trusts themselves). It is not exhaustive, nor does the existence of one or more of the issues always signify that a material uncertainty exists.

Board members (those charged with governance)

14 When approving the accounts, those charged with governance will need to consider which of the following three basic scenarios is the most appropriate:
• the body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
• the body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;
• the body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.

15 To enable those charged with governance to do this, management will need to report to them the process it has followed in forming a view on going concern and the assumptions on which that view is based. Those charged with governance should, where appropriate, challenge those assumptions, particularly where they are aware of any significant issues that do not appear to have been taken into account, to ensure that the financial statements have been prepared on an appropriate basis.

16 To help them form a view on the appropriateness of the going concern assumption, board members may wish to consider the following questions:
• Has a report been received from management forming a view on going concern?
• Are the financial assumptions in that report (eg, future levels of income and expenditure) consistent with the strategic business plan and the financial information provided to the board throughout the year?
• If not, does the report contain a clear explanation, with supporting evidence, for the assumptions used, and are those assumptions appropriate? This should include written evidence of agreed income and expenditure for major funding streams.
• Are the implications of statutory or policy changes appropriately reflected in the business plan, financial forecasts and report on going concern (eg, Payment by Results, Patient Choice, Agenda for Change)?
• Are there any indications that commissioners are reviewing their commissioning arrangements such that income streams and activity levels could be adversely affected?
• Have there been any significant issues raised with the board during the year (eg, adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control, or significant variances to activity levels compared to those planned), which could cast doubts on the assumptions made?
• Does a review of available financial information (annual accounts, in-year financial monitoring reports, future year financial forecasts) identify any of the following adverse financial indicators:
  - negative cash flow (ie, expenditure greater than income);
- poor or deteriorating performance against the better payment practice code (ie, deteriorating performance in the payment of creditors, possibly indicating cash flow problems);
- delay or deferral of PDC or other loan repayments.

• If so, what action is being taken to improve financial performance?

• Has an analysis been undertaken of the trust’s projected performance against Monitor’s risk rating criteria? If not, what assurances can management provide that the trust will be able to perform effectively within the foundation trust regime?

• If such an analysis has been undertaken, is it robust and does it identify any areas of potential concern? If so, what action is being taken to address those areas of potential weakness?

• If a deficit exists, is there a recovery plan, agreed with all key external stakeholders (eg, strategic health authority and PCTs)?

• Where the recovery plan includes proposed future savings, is there a realistic, documented implementation plan showing how those savings will be achieved, and over what timescale? Has the implementation plan been agreed by those within the organisation expected to deliver the savings (eg, department heads, clinicians)?

• If achievement of the recovery plan is dependant on additional financial support (eg, funding from the NHS Bank or additional resource allocation from the strategic health authority), has the provision of that support been confirmed in writing?

• Does the organisation have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the organisation’s objectives? If not, what action is being taken to obtain those skills?

• Has the board been notified of any proposals, either from the Department of Health or strategic health authority that could have implications for the future operation of the organisation (eg, possible service reconfiguration or restructuring)?

17 Board members may wish to consider to what degree some or all of the above questions have been considered by management when forming a view on going concern, and it may be appropriate to request management to specifically address these in its report, providing the necessary supporting evidence.