Grant Thornton

Auditor's Annual Report on Worcestershire Acute Hospitals NHS Trust

2020-21

20 September 2021

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We are required under Section 21(3)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Trust or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for Money Arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Trust has in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified/unqualified VFM conclusion. Instead, auditors report in more detail on the Trust's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Trust's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weaknesses in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Criteria	Risk assessment per audit plan	Conclusion
Financial sustainability	Risk identified because of significant cumulative deficit position	No significant weaknesses in arrangements identified, but improvement recommendations made.
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified.
Improving economy, efficiency and effectiveness	Risk identified based on our preparatory benchmarking work where the Trust was identified as an outlier in some key areas of spending and performance	Significant weaknesses in arrangements identified, with key and improvement recommendations made.

Financial sustainability

After undertaking initial planning work, we reported a risk of significant weakness in respect of the Trust's arrangements for financial sustainability. This was because the Trust has a significant cumulative deficit and risks remained with delivering against financial targets going forward. Following the completion of our work on this risk area, we recognised that the response to the pandemic has necessitated a change in financial regime and uncertainty which has not enabled robust financial planning beyond a year. We therefore judged that we would focus the remainder of our work on the progress in development of the underlying strategies to support future financial planning and consider these further under Improving economy, efficiency and effectiveness below.

Given the financial challenges experienced by the Trust in previous years, there was an expectation for the Trust to made significant progress in developing the medium term plan. This plan was to develop a financial strategy and long term recovery plan, informed by a clearer understanding and response to the drivers of the Trust's underlying deficit. We would also have expected that the Cost Improvement Programmes (CIP) would have been achieved with recurring schemes delivered. The response to the pandemic has understandably meant that the Trust has had to focus its work elsewhere and so we have not seen the progress that would otherwise have been expected. However in view of the financial landscape in which the Trust has operated this year we do not consider it to be appropriate to conclude there is a significant weakness in this area.

Governance

When planning our audit we did not identify any potential risks of significant weaknesses in respect of the Trust's governance arrangements.

As previously reported, there have been concerns in prior years in the governance arrangements at the Trust as reflected in high turnover of senior management and significant unexpected deterioration in the financial position. However in more recent years and particularly in 2020/21 we have seen more stability in senior roles and strengthening of senior management and a clear understanding of the importance of strong governance arrangements.

From the work performed we are satisfied this conclusion remains valid and we have not identified any significant weaknesses.

Executive summary

Improving economy, efficiency and effectiveness

At our planning stage we identified improving economy, efficiency and effectiveness as a significant risk area. This was based on our preparatory benchmarking work where the Trust was identified as an outlier in some key areas of spending and on many areas of clinical and operational performance.

Suspension of much elective surgery nationally to respond to the primary need to react to the Covid 19 pandemic has seen a large increase in waiting times and this has become a major challenge for the NHS nationally. This is the case locally at the Trust and creates additional complexity in concluding whether planned / implemented measures taken by management are having the desired impact on underlying operational performance.

In order to put the Trust on a sustainable footing, financially and operationally, management has recognised that there are several key strategies that need to be in place, but are not currently. The Trust has a principles based clinical strategy that will be further developed with partners. Work is being undertaken to support development of a sustainable workforce strategy and an Estates Strategy, however these are not yet in place. The Trust has recognised these as two of its annual plan priorities for the forthcoming year. Recognising that these two areas represent a considerable proportion of the Trust's core spending, where the Trust remains an outlier in its levels of spending compared to other NHS organisations, having clear plans in place to realise reduced cost opportunities in these areas is vital to enable the Trust to produce a meaningful medium term plan for achieving long term financial sustainability. We therefore consider the absence of these strategies as a significant weakness.

From our interviews and document reviews it is clear that the Trust has lacked the necessary investment in its IT, although this is now more recently being addressed through the much needed digital strategy. Out of date information systems have led to weaknesses in data quality and management information. We have also seen that benchmarking information, such as model hospital, whilst referenced in many of the Trust's oversight processes, is not systematically used across the Trust to understand and realise opportunities to reduce costs, develop further efficiencies and improve productivity. We therefore consider that the use of and adequacy of underlying information to support management decision making and planning is a significant weakness for 2020/21.

Context to this year's work

Our work on Value for Money has coincided with an exceptional year in the NHS. In order to support the work done by the NHS in grappling with the effects and impact of the global pandemic caused by Covid-19, a new funding regime was introduced and, to aid the effort, some "business as usual" practices within the Trust have been paused to allow it (and the sector at large) to prioritise on delivering those services necessary to help its patients and wider community from the pandemic outbreak.

It is against this context that the commentary in this report is made. The Trust recognises it has a number of priorities to focus on for the future, but it is aware of and recognises where these challenges are. With a finite level of staff and resources available, the Trust clearly has had to devote considerable efforts to focussing on its response to the pandemic, and believes that its pace of improvement would have been further progressed under normal circumstances.

As the Trust moves forward into what will hopefully be business as usual, there needs to be a continued focus on financial control and delivering efficiencies along with renewed focus on the maximising opportunities working with its Integrated Care System (ICS) partners, which will be key to delivering future financial sustainability.

Opinion on the financial statements

We completed our audit of the Trust's financial statements and issued our audit opinion on 15 June 2021, following the Audit Committee meeting on 9 June 2021. Our audit opinion was qualified to reflect a limitation of scope over the brought forward stock balance and the need for any adjustment of this balance and the consequential effect on the drugs costs and supplies and services for the year ended 31 March 2021. Further details are set out on page 32 of this report.

Executive summary

The following individuals were interviewed as part of undertaking our VFM assessment.

- Matthew Hopkins, Chief Executive
- Robert Toole, Chief Financial Officer
- Katie Osmond, Deputy Director of Finance
- Joanne Kirwan, Assistant Director of Finance
- Jo Newton, Director of Strategy and Planning
- Denise Price, Associate Director of Nursing
- Dee Johnson, Patient Safety Investigation and Risk Manager
- Tina Ricketts, Director of People and Culture
- Dave Coley, Director of Procurement and Supply Chain
- Siobhan Gordon, Head of Quality Hub
- Richard Oosterom, Chair of Finance and Performance Committee

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Trust's staff amidst the pressure they were under during these unprecedented times.

Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body	We did not issue any statutory recommendations.
Section 30 referral Under Section 30 of the Local Audit and Accountability Act 2014, the auditor of an NHS body has a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, and/or relevant NHS regulatory body as appropriate	We issued a section 30 referral to the Secretary of State because the Trust has a cumulative deficit of £342.559million as at 31 March 2021 and this gives rise to a duty on us to report under section 30(b) of the Local Audit and Accountability Act 2014 in respect of the three year period ending 31 March 2021. we issued this report on 7 June 2021.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.

Key recommendations

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors are required to report their commentary on the Trust's arrangements under specified criteria.

The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Trust. We have defined these recommendations as 'key recommendations'. We have identified three such recommendations set out below and overleaf.

Longer term planning to manage the costs of the Trust's estate

Recommendation	The Trust needs to undertake further work to understand the key cost drivers within its Estates and Facilities function and develop its Estates Strategy. Focus should also remain on strengthening PFI contract management processes and securing more value from the arrangement.
Why/impact	An estates strategy is a key pillar to the Trust's development of a realistic medium term plan.
Auditor judgement	This is considered to be a significant weakness .
Summary findings	Benchmarking (model hospital) has shown that the Trust is an outlier on estates costs. This is in part driven by the Trust being spread over three sites and also due to an expensive PFI scheme. The Trust needs to have a better understanding of which elements of costs are controllable and those which aren't to then inform an estates strategy driven by clinical and operational need and agreed with partners.
Management Comments	A draft Estates Strategy was considered by the Trust Management Executive in August 2021 and a final version will be taken to TME in October 2021 and F&P in November 2021 for approval. The strategy includes an overview of the outcome from the six facet survey and the potential opportunities to reduce direct estate related costs.

Key recommendations

Sustainable workforce planning and costs

Recommendation	The Trust needs to accelerate the work it is undertaking to understand the drivers of its high costs and Trust dependency on bank and agency nursing. This should then drive a workforce strategy developed in conjunction with system partners.
Why/impact	Bank and Agency costs are well documented to be a significant challenge for the Trust and this has been the case for some years. National benchmarking data shows that the attention given to this matter by management has not had the desired impact as it still remains an outlier in national benchmarking data. Managing down agency costs is key to the Trust being able to manage its financial deficit and an agreed HR strategy is key to the development of a good medium term plan.
Auditor judgement	This is considered to be a significant weakness.
Summary findings	**Whilst** there is clear evidence of cross system collaboration to work to address workforce issues, the Trust needs to develop a sustainable workforce model underpinned by a workforce strategy to ensure optimisation of its substantive workforce and reduce its high dependency on temporary staffing. Model Hospital shows there are significant workforce opportunities which correlate to the size of the Trust's premium staffing costs.
Management Comments	In June 2021 the Trust launched the Best People Programme which is focused on reducing our reliance on the temporary workforce. There are 6 workstreams to this programme which are overseen by a Programme Board chaired by the Chief Executive. Each of the workstreams has an Executive Sponsor. Regular progress reports are submitted to TME and People & Culture Committee. An ICS Bank and Agency Group was established in July 2021 and is a forum to share best practice and to collaborate on actions that will reduce premium staffing costs across the system. This Group is chaired by Liz Faulkner who is the Assistant Director of HR Corporate Services for the Trust. The Group reports to the ICS People Board and ICS Finance Forum. The Trust has developed its workforce plan in line with H1 requirements which has been triangulated to finance and activity. The plan will be refreshed in October 2021 in line with H2 guidance. The Trust's People & Culture Strategic Framework has been mapped to the ICS Strategic Framework and to the NHS People Plan. The HR Directorate has produced an annual plan detailing priority actions. Work is in progress to extend the workforce plan (both at Trust and system level) from a 1 year plan to a 3 year plan.

Key recommendations

Quality and use of data

Recommendation	The Trust needs to continue to implement actions to improve its infrastructure and quality of clinical, performance and service data across the organisation including: • Implement existing plans to support the roll out and necessary upgrades to the patient administration system • Reinvigorating the Trust's Data Quality Steering group as detailed in the latest Data Quality Report to the Audit and Assurance Committee • Ensuring a systematic use of benchmarking information across the Trust to help understand and realise opportunities to reduce costs, develop further efficiencies and improve productivity.
Why/impact	Legacy information systems and data quality can lead to poor management information.
Auditor judgement	This is considered to be a significant weakness.
Summary findings	Quality data and information analysis supports Clinicians and Management in making informed decisions. We have seen evidence of a historic lack of investment in IT, which is now being addressed though the IT strategy, but has resulted in inadequate information to support decision making in some areas – examples include the PAS system and procurement and stores systems in 2020/21 and previously. There is also evidence of poor data quality in some areas (such as that supporting waiting lists). Whilst there are pockets of evidence seen where benchmarking has been used, it is not used routinely or systematically. The Trust has undertaken a number of GIRFT reviews and deep dives. These identify actions for improvement, however there is limited evidence that these have been implemented and outcomes delivered. The Trust should ensure this is makes more structured and routine use of benchmarking data.
Management Comments	The three year Digital Strategy provides clarity on the strategic direction of the Trust to invest in, and improve the underlying digital infrastructure. Excellent progress has been made during 2020/21 of the strategy in terms of refreshing the technical infrastructure , funding arrangements, and dealing with the PAS upgrade. The Trust is clear about the data quality of existing data sources (to the extent that it willingly commissioned an external review by MBI) and uses information appropriately to make decisions. This has been particularly evident during the Covid-19 pandemic, where intelligent-led decision making has become ingrained in the organisational culture. There is established governance in place to deal with Trust wide Data quality issues, which has been interrupted by the Covid-19 pandemic.

Commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources

All NHS Trusts are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Trust's responsibilities are set out in Appendix A.

NHS Trusts report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Trust can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Trust makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the NHS Trust makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Trust delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 11 to 24. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the NHS Trust:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Financial position 2020/21

A new financial regime has been in place nationally for 2020/21 to provide certainty in funding and to ensure a break even position such that attention could be understandably focussed on the Trust's response to the pandemic, and treating patients.

2020/21 outturn – the Trust operated within the national framework which is based on block contracts. The Trust's income and expenditure profile was clearly different this year due to the response to the pandemic. However, the Trust set itself a budget based on an agreed deficit plan of (£78.9m) with divisional budgets monitored against this target. The Trust Board reports are stating a deficit of (£103m) was achieved, of which £24m is regarded as COVID 19 specific, giving an outturn of (£78.6m). The statutory accounts are showing operating expenditure was £540m compared to £514m in the previous year and an adjusted surplus of £6.6m, compared to an adjusted deficit of (£81.4m) in the previous year. The outturn in the statutory accounts reflects top- up payments of £81.4m and £16.4m additional covid-19 funding in 2020/21 to compensate for additional expenditure or reduced income as a result of the pandemic.

The cumulative deficit position continues to be significant at £342.5m at the year end. There is no possibility of the Trust recovering this cumulative deficit in the foreseeable future.

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Breakeven duty in-year financial performance		3,135	287	88	17	(14,191)	(25,918)
Breakeven duty cumulative position	(21,854)	(18,719)	(18,432)	(18,344)	(18,327)	(32,518)	(58,436)
Operating income		312,889	321,829	336,594	348,763	346,029	364,656
Cumulative breakeven position as a percentage of operating income		(6.0%)	(5.7%)	(5.4%)	(5.3%)	(9.4%)	(16.0%)

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

Financial sustainability (continued)

Medium term planning (MTFP)

An initial draft MTFP was prepared in January 2020 with plans to finalise this in March 2020, however the timetable experienced slippage due to the impact of the pandemic. The draft MTFP shows that the Trust planned to reduce the planned in year deficit to £68m (£35.6m including MRET) in its ICS submission, by 2023/24.

£'ms	2019/20	2020/21	2021/22	2022/23	2023/24
MTFP Modelled Deficit (2.5% Efficiency)	(82.8)	(80.2)	(78.5)	(72.5)	(68.0)
Stretch 3.5% Efficiency	(82.8)	(71.8)	(64.9)	(54.1)	(44.9)
Financial Improvement Trajectory	(61.0)	(54.7)	(48.7)	(42.3)	(35.6)

The draft MTFP refers to work undertaken in 2017 and refreshed in 2018 to understand the drivers of the deficit, and to establish which elements are in the Trust's control and what is outside. It was intended that this work would be extended to inform the final MTFP, however this work has not been formally undertaken. The MTFP references other strategies such as the clinical services and digital strategies that are critical to a realistic financial plan. However these and other key strategies, such as workforce and estates strategies are clearly evolving and will continue to do so in conjunction with the ICS, and it is vital that any MTFP links to such strategies. Management must ensure that there are clear plans and actions in place to finalise work on these strategies and ensure clear alignment with the MTFP.

Financial Planning 2021/22

The Trust submitted its financial plan for the first six months of 2021/22 (H1) in April prior to formal submission by the Integrated care system (ICS) to NHSE/I in early June. Block contracts are continuing into 2021/22 for H1 and are expected to continue into H2, with no immediate return to payment by results (PBR) anticipated.

We have seen that there is good engagement with the finance leads in the various organisations within the system resulting in an agreed financial plan for H1 2021/22. The H1 original submission was for a Trust deficit of £2.9m which was reassessed to a £1.1m surplus in the June submission (reflecting additional elective recovery fund income of £2.2m). Savings plans for the system have been agreed as part of this process, although the Clinical Commissioning Group (CCG) is bearing much of the financial risk. Plans include schemes that total £5.4m, and are considered to be relatively low risk schemes, thus having the greatest likelihood of delivery. However we did note that at the start of the year not all the schemes had been fully developed when the savings target was agreed for H1.

The revenue budget itself is based on 2019/20 outturn, in line with national guidance, which was when the Trust was operating under a different financial regime, predominantly based on a payment by results (PBR) system which is activity based, as opposed to a block payment system currently. It is not yet known how the funding regime will evolve post- covid, although we do know that funding will be based on an allocation for the 'system', which means that the funding for all health bodies within the two counties will be funded from one overarching budget, distributed as agreed between the partners.

The focus for the Trust is to now to restore activity, following the suspension of much elective activity as a consequence of the response to the pandemic. However this needs to be done in a way that doesn't increase unit costs. The focus will therefore need to be on improving productivity in order to manage costs of delivering services whilst addressing the waiting time backlog. This is the case for all trusts, however for the Worcestershire Acute this will be even more critical due to the underlying deficit position.

The Trust has a substantially larger capital programme for 2021/22 of £51.69m (£27m 20/21) which includes the ASR project and the new Urgent and Emergency care scheme.

The Trust has arrangements in place to identify COVID costs during 2020/21 and which are ongoing and those that are anticipated to be new costs during the first quarter and to take that into account when forward planning.

Financial sustainability (continued)

ICS wide considerations

We note that the ICS finance task and finish group has driven much of the collaboration in preparing the financial plan. The group appears to have benefitted from having an independent chair as this has helped to build trust and has broken down the potential challenges posed by the more contract focused relationship between the CCG and providers.

There is a Finance forum which undertakes monthly financial monitoring across the system, using organisational run rates (which also reflect saving performance). Meeting agendas also include capital monitoring and initiatives such as Best Use of Resources, which are designed to develop quality, innovation, productivity and prevention (QIPP) benefits across the system over the medium term.

Outturn risks are monitored closely (as has been the case for 2020/21), but the action to address the issues remains the responsibility of the individual organisations. As it is a Finance Forum, it does not have executive control of delivery other than to provide challenge for delivering the key collaborative principles set out in the terms of reference (TOR).

We note that while the majority of QIPP and financial improvement programme (FIP) savings remain the responsibility of individual organisations, there have been significant moves towards system wide transformation in targeted areas, managed by the ICS programme team. This includes workforce/ agency and digitisation initiatives forming key components of the Best Use of Resources project. Delivery of these elements, is the collective responsibility of the ICS.

The development of a medium-term financial strategy for the system remains in the early stages, pending the resolution of the plan for 2021/22 and clarification on the national funding arrangements for H2 and future years. Therefore there is not yet a clear medium term deficit position available for review. This is expected to emerge in draft towards the end to Q2 2021/22 and the process will be overseen by the Finance forum, alongside the governance and challenge provided within the individual organisations.

Summary

In summary, we have seen that the Trust has been able to effectively manage its finances over the last two years to at least deliver its budget and has achieved an adjusted financial surplus this year. The surplus achieved was, in fact, greater than planned due to additional income allocations close to the year end. The Trust has good in-year controls over its finances which includes maintaining a strong cash position.

There remains uncertainty around the long-term NHS financial funding regime. If the recent changes to the financial landscape continue then there is potential for the financial position of the Trust continuing to be positive . The Herefordshire and Worcestershire system in which the Trust sits is financially challenged and, as demonstrated with the challenging targets set for the Trust in H1, it is likely that the Trust will remain financially challenged in the short to medium term.

Governance

We considered how the NHS Trust:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Leadership

In the Trust's recent history, there was an high turnover of senior management. In 2018/19, the Trust's financial position deteriorated unexpectedly. The Trust had been in special measures for several years and had a continuing Care Quality Commission (CQC) inspection rating of 'inadequate'. Inconsistent leadership and inadequate governance arrangements meant that the Trust was unable to make sufficient progress operationally or to address the underlying financial and operational challenges.

Whilst there has been some turnover of staff in senior positions over the past twelve months, we have seen that gaps in leadership such as in IT, estates, HR and procurement have been filled and this has provided new perspectives and challenges to existing practices. The Trust Board has been strengthened in recent years and there continues to be ongoing review of corporate governance arrangements including risk management arrangements.

This stability along with improvement in the overall CQC rating from 'inadequate' to 'requires improvement' in 2020 will clearly help to improve the reputation of the Trust and management has reported that the Trust is seeing an improvement in retention and recruitment of staff at lower levels in the organisation which they believe is related to this improving profile.

Committee reporting

Governance was recognised as a key priority for further work during 2018/19. A Task and Finish group was established in 2019 to oversee improvement work and to confirm the final set of recommendations for adoption by the Trust. As part of the group's work concerns had been raised about the quality of papers to sub committees regarding the objectivity of the levels of Assurance provided in papers. The Quality Governance Committee played a lead role in advocating and testing the levels of assurance during 2019/20 and 2020/21 and the Trust Management Executive and Board formally adopted the use of the 7 levels of assurance in 2020/21. The approach now prompts risk owners to be identified and to more clearly report on the risks and the progress and weekly performance type meetings are held with action plans and specific action owners.

Audit and Assurance Committee

The Committee has recently appointed a new chair who is keen to refocus the committee. The membership of the committee is strong and from our attendance we have seen that there is appropriate challenge as part of the meetings. There is continuing review of the effectiveness of meetings (which we also observed at the Finance and Performance Committee) with reflections on what went well and not so well at the end of each meeting.

Governance (continued)

The recent committee effectiveness self-assessment was responded to well by members and regular attendees of the committee with the vast majority of the responses positive. Key observations were that:

- the committee needs to focus on the 'so what's' from reports.
- there is often a delay in implementing some recommendations; and
- more senior managers should attend the committee to respond to internal audit reports and provide assurance to the committee on implementation of recommendations.

The Committee had an away day recently with the objective to refocus the committee agenda and the internal audit programme to ensure that there is the right level of attention given on the key strategic issues and risks for the Trust. The work of the committee includes the review of waivers, gifts and hospitality in line with good practice. The high level of waivers have been challenged with a report presented on improvements needed to controls within procurement. Overall we have seen that the committee works well and provides an appropriate level of assurance to the Board.

Internal audit

The Head of Internal Audit Opinion was issued in June 2021 and provided 'significant assurance' to the Trust, reflecting significant assurance issued from each review. The report covered:

- BAF
- Health and safety follow up
- Financial assurance
- Financial management and reporting
- Sickness management

The IA coverage reflects that it is a covid year, and we acknowledge that the plan is risk based, however we note that all the reviews, which provide high levels of assurance to the Trust, are corporate based. It is important that Internal audit also continues to provide assurance around the operation of some of the basic key controls operating within the Trust departments on a rolling basis as well as providing assurance at a more strategic level.

Internal controls

There is no evidence of pervasive and significant weaknesses in the Trust's internal controls from the external audit of the financial statements or the work of internal audit. The Head of Internal Audit Opinion for the year gave the Trust 'significant assurance that that there is a good system of internal control designed to meet the organisation's objectives, and that controls are generally being applied consistently'.

The Trust also has a well established and well embedded culture of counter fraud. The Local Counter Fraud Service (LCFS) regularly reports to Audit Committee and any identified cases of fraud are investigated and reported to the committee.

Budget Setting and Budgetary Control

Months 1 to 6 of 2020/21 were based on nationally mandated block payments based on sums agreed as part of the 2019/20 month 9 Agreement of Balances exercise. This resulted in a break even position for April - September 2020. From October, the financial regime changed again and Trusts reported against a system led budget package for October 2020 to March 2021.

This framework aimed to retain the simplified arrangements for payment and contracting but with a greater focus on system partnership and the restoration of elective services. Systems were issued with funding envelopes that were equivalent in nature to the months 1 to 6 block values and prospective top ups, plus a non-recurrent sum linked to Covid. Providers and CCGs needed to achieve financial balance within these envelopes in line with a return to usual financial disciplines.

Nationally and locally, the usual operational planning process was suspended in March 2020 to enable management resources to be fully focussed on tackling the pandemic. With the impact of the Covid-19 pandemic there was some difficulty in making accurate assumptions and forecasting, as well as delays due to waiting for regional and national guidance. The Board, supported by the Finance and Performance Committee, were kept informed of the changes in the planning and financial regime throughout the year.

At a budget holder level, and committee reporting level, monitoring arrangements did not change during 2020/21 with planned monthly reporting to the Finance and Performance Committee.

For capital expenditure related to COVID, the governance was focussed around the 'Gold Command' structure where approval for spend was given, before being passed on to NHSE/I. Additional COVID related revenue expenditure was separately recorded and approved by the finance team.

Governance (continued)

The budget planning process started in October 2020 for the 2021/22 budget, working on a baseline/ business as usual budget, plus pressures and efficiency targets agreed with budget holders. The intention is to separately record COVID related expenditure in the core budget.

Clearly, there is an inherent risk in that if the Trust is unable to see if and how it is controlling expenditure there will be a negative impact when the financial regime comes to an end i.e. the Trust could have committed to recurrent expenditure that is not affordable and therefore it is important that COVID related expenditure is tracked and monitored such that the non-recurrent effect can be determined.

Conflicts of interest

The Trust has published on its website an up-to-date conflicts of interests register, for all staff including decision-making staff as required by the 'Managing Conflicts of Interest in the NHS' guidance. This covers Board members (2021/22) and Divisional Directors (2020/21). We have see that other trusts include a wider range of decision makers in their disclosures list (for example those leading on procurement) also there is no information as to whether all decision makers complied with the requirement to disclose or whether there have been any breaches.

ICS considerations

The Herefordshire and Worcestershire Integrated Care System (ICS) has made good progress in setting up shadow governance arrangements in preparation for the establishment of the ICS as a statutory body in April 2022. This will replace the existing CCG and the new ICS plan will supersede the previous STP integrated plan to which NHS and other organisations in the region had previously been working. The ICS has established sound governance arrangements to manage the transition to full ICS status, alongside setting in place the longer-term transformation in the medium term. These arrangements include financial governance structures based around the Finance Forum, attended by organisation CFOs, and its supporting task and finish group, attended by Deputy CFOs. The arrangements have been functioning well for over a year, and compares favourably with progress made in other ICS areas.

Summary

In summary, we have not identified any significant weaknesses in the Trust's arrangements for budget setting and management, risk management, and ensuring that decisions are made based on appropriate information.

As noted on page 6, we have written to the Secretary of State under section 30(b), due to the cumulative deficit and failure to breakeven over a rolling 3 year period which gives rise to a duty on us to report to the Secretary of State under section 30(b) of the Local Audit and Accountability Act 2014 in respect of the year ending 31 March 2021. This is not considered to be a significant weakness in and of itself, as it is considered to be largely legacy related and the cumulative deficit has decreased this year (see page 11).

Improving economy, efficiency and effectiveness

We considered how the NHS Trust:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

We have reviewed arrangements at the Trust for improving services and the way in which they're delivered. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users. With Covid-19 impacting usual practice with regards to delivering efficiency improvements, we have had regard to the Trust's prior year arrangements and future plans.

This has involved reviewing Trust Board and committee meeting papers and minutes, key working paper files as well interviewing key personnel across your leadership, finance, procurement and quality teams.

Performance reporting

Trust performance is measured with reference to a range of national priority standards and targets, covering operational performance, quality and safety, patient experience and the statutory duty to achieve financial breakeven and future sustainability. In April 2017 the Trust developed a Performance Management and Accountability Framework for implementation across the organisation. It continues to be revised to ensure it aligns itself with the Trust's operating model whilst drawing on best practice across the NHS.

An Integrated Performance Report (IPR) which incorporates a core set of key performance indictors (KPIs) is reviewed by the Board and Finance and Performance Committee on a monthly basis. This allows for the identification of KPIs not on target, or not on a recovery trajectory, and the associated risks and mitigating actions.

National benchmarking is included for each of the Operational Performance KPIs which is not always seen elsewhere and helps to provide context on the Trust's performance.

Performance monitoring across the system is reported through Trust Management Executive (TME) where relevant, particularly for Covid recovery. TME is the primary executive decision making body for the Trust. The STP Performance Forum is seeking to establish an STP-wide performance reporting structure.

Overall there is extensive and clear reporting to the Board. However, as there are a number of areas where the Trust need to address performance, and particularly in view of the fact that subcommittees look at the detail, the Trust Board should consider a more targeted approach to focus on key matters and to enable focused decision making. The Director of Governance has recognised that there is a need for 'smarter' reporting to enable the Board to focus and to facilitate decision making and this is being progressed.

The tables overleaf give details of the Trust's performance against national targets. The Trust is an outlier in a number of these areas.

Improving economy, efficiency and effectiveness (continued)

Trust Performance against Constitutional targets

A&E > 95% target	The Trust has not met the 4 hour EAS 95% standard in 2020/21 with an average of 84.13%. The target was almost reached between April 2020 to July 2020, during wave one, but then declined to below 70% in December 2020. March 2021 data shows an improvement to 80.94% and remained at a similar level in Q1 2021/22 as attendances rise yet again. Performance has improved on 2019/20 and there were fewer 4 hours breaches in 2020/21, (2019/20 = 77.90% and 2020/21 = 85.75%), however there were 15,980 fewer attendances and 1,145 fewer ambulance conveyances to the Trust over the course of the year. More recently we have seen particular pressures with activity in August 2021 stated as higher than for the equivalent period 2 years ago. Although there has been a slow, steady decrease in the number of Covid patients over Q4 2020/21, the pressure remains on both hospital sites to manage bed capacity and patient flow, particularly to discharge patients before midday and support long length of stay patients to leave the hospital. Ambulance handover and 12 hour breaches have significantly improved on the prior year with only 1 validated 12 hour trolley breaches in March 2021 and 80 over the full year compared to 937 in 2019/20, a 91% reduction.
Cancer targets 2ww all > 93% target	For 2020/21, the Trust achieved 81.71% against a national average of 88.7%. Cancer two week waiting times have not changed significantly since the decline following wave one. The 93% target was almost reached between April 2020 to July 2020, during wave one, but then declined to 70% in October 2020. February and March 2021 data shows an improvement to 79.16% and has remained at a similar level in Q1 2021/22.
31 day first treatment > 96% target	For 2020/21, the Trust achieved 95.4% against a national average of 95%. The Trust has met the target of 96% from July 2020 to November 2020, but then performance declined with a trough in January 2021 to 90%. performance has improved in February and March 2021 rising to 94.17%. The Trust notes that the metric is showing significant variation.
62 day all > 85% target	Cancer 62 day waits are of the most concern of the cancer metrics, which is being felt nationally. For 2020/21, the Trust achieved 68.07% against a national average of 74.3%.

Improving economy, efficiency and effectiveness (continued)

Trust Performance against Constitutional targets

RTT > 92% target	For 2020/21, the Trust achieved 52.89% against a national average of 61.93%. WAHT is one of the lower performing Trusts nationally for RTT per March 2021 benchmarking. The Trust also has a history of not meeting the RTT target and did not achieve it in 2019/20 with an average of around 80%. Per March 2021 data, the Trust has seen a further 7% increase in the overall wait list size compared to February 21; from 43,726 to 46,513. This is 4,624 more patients on the waiting list than forecast (and for context over 11,119 more than in the prior year). The number of patients over 18 weeks who have not been seen or treated within 18 weeks increased to 22,434. This is 2,000 more patients than in February. RTT performance for March 2021 was validated at 52.89% compared to 53.27% in February 2021. This remains sustained, significant cause for concern from April 2020 and the 92% waiting times standard cannot be achieved. The waiting list has grown for 9 of the last 10 months to March 2021. As at March 2021, the number of patients waiting between 40-52 weeks for treatment is 2,365, and those patients waiting over 52 weeks which is now 6,515, this is currently 4,332 more patients waiting 52+ weeks than on the phase 3 forecast (for context only 1 patient was waiting more than 52 weeks in the prior year). The reduction in referrals during wave one of the pandemic accounts for the shift in the number of patients waiting over 52 weeks being more than the 40-52 weeks cohort. It will require careful, structured planning to ensure the longest waiters and highest clinical priority are seen in line with policy.
Diagnostics > 99% target	Diagnostic testing also remains a cause for concern and the process is currently not capable of achieving the 99% target. Full year data is not available, but in March 2021 the Trust achieved 49.33%. WAHT is one of the lower performing Trusts nationally for DM01 per March 2021 benchmarking. There is no significant change from the previous month and consistent with the sustained underperformance since the cessation of elective diagnostic tests due to Covid created a backlog of patients. While the Trust was not consistently meeting the metric in 2019/20, performance remained above 90%. As at March 2021, 5,614 patients were waiting over 6 weeks for their diagnostic test and of the total number of breaches, 2,638 have been waiting over 13 weeks where 50% are attributable to DEXA and echocardiography. For context, 258 patients were waiting over 6 weeks in 2019/20. Although activity increased towards the end of 2020/21, requests have also increased. National performance for 2020/21 was 62.95%. A number of actions are in place split between radiology, endoscopy, neurophysiology and cardiology.
National Cost Collection Index (NCCI)	NCCI measures the relative cost difference between providers which shows the actual costs of the Trust's casemix compared to the same casemix delivered at the national average cost. NCCI for the body is 110 in 2018/19, meaning costs per activity unit are 110% of the national average. Elective (88) is the only activity with a below average index. Community services (140) and A&E (149) are the key drivers for pushing the org-wide index above average. There is no more recent available data due to the pandemic. Agency spend as % of total staff costs -The Trust has a high level of temporary staffing costs through bank and agency use and this matter is a well documented challenge for the Trust.

Improving economy, efficiency and effectiveness (continued)

Data quality and making best use of available data

The Trust understands the importance of good quality data and is striving to ensure that all data is accurate, valid, reliable, timely, relevant and complete. Identified risks and relevant mitigation measures are included in the risk register. The Trust has a Data Quality Framework to facilitate an understanding amongst staff as to what 'Data Quality' means, the methodology to use when monitoring data quality, and to emphasise that any individual who creates, records or uses data is accountable for understanding and making transparent the level of confidence using the data quality domains.

The Trust assures the quality and accuracy of the elective waiting time data through quality assurance mechanisms, checks on patient level daily reporting, regular internal training around use of systems and Refer to Treatment (RTT/waiting times) rules, and operational sign off of data. The Trust remains challenged due to supporting many clinical systems that may not all communicate with each other, however, interrogates data to identify and resolve issues.

The Trust has a Data Quality team and Information Department. Within this are the Analysts and Performance Team who are responsible for the production of regular reports to Trust management Boards, Committees and Groups; the completion of statutory external returns and data submission; and the production of both ad-hoc and routine reports developed to support clinical directorate management and decision making. Data used in the production of these reports is extracted from patient systems and the information staff take responsibility for the validation (identifying and reporting the errors) once extracted. Any areas of concern identified by the team are escalated to the Data Quality Team. Within this there is a Data Quality Manager who leads in communicating the Data Quality Agenda Trust wide. This includes communicating any national data quality policy changes, new Information Standard Notices (ISN), providing guidance on data quality issues, and leading on data quality investigations into identified issues. Reports the results of any investigations to the Data Quality Steering Group (DQSG).

The DQSG is the primary source of assurance for data quality – however this group has not met this year due to Covid. The normal workplan has been interrupted to allow for a focus on Covid rather than wider data. Clearly reinstating the wider role of this group is important so that the Trust can be assured it is making decisions based on good quality data.

Specific issues have been highlighted in the year relating to missing NHS numbers and waiting list data with matters highlighted on the adequacy and completeness of the data during 20/21 and previously. The latest update to the Audit and Assurance Committee provides assurance that mitigations have been put in place and steps are being taken to address these issues.

Improving economy, efficiency and effectiveness (continued)

Information systems

Following the appointment of the Trust's Chief Executive, additional senior management appointments were made with a board Director responsible for all digital matters and a further Director level appointment with responsibility for Estates and Facilities. The Digital Director has already identified a number of weaknesses in IT systems and this has impacted on progress towards the key objective of implementing digital care records although progress is being made.

The Trust has a history of a lack of investment in the IT infrastructure and from the absence of a digital strategy – however this is now in place. Delayed implementation of plans in this area has directly impacted on the Trust's ability to operate safely and effectively, make better clinical decisions quicker and with reliable information. Examples include:

- Procurement systems: As referenced on page 24, the Trust had inadequate information systems to support the contract management process, and this directly contributed to the poor management and oversight of contracts and supplier performance.
- Patient Administration System (PAS) system: the Trust has recognized that the PAS system was inadequate due to a historical lack of funding and management of the system, made worse through equipment and software going end of life or being subject to a 1000% price increase. Added to which the Trust invoked a 12 month moratorium of PAS and DCR deployments to cope with the recent Covid 19 pandemic. The F&P committee received a report in April 2021 outlining that PAS upgrade spans 6 versions of software, requires new servers and upgrades in operating systems and RDBMS. It has therefore been classified as a re-implementation and will require extensive work to address over the coming year.

Learning from other organisations

A major form for learning is through relationships with other providers and the Trust has provided some examples including reference to shared learning with PFI partners (Engie and Siemens) on how to best work together during Covid, and how to make strategic decisions going forward.

Centrally, learning is done as reports are released on an ad hoc basis, which the Trust will review, do gap analysis, identify learning required and implement action plans. Ockenden is a good example for 2020/21 which is tracked and monitored through Nursing and Midwifery. Since its release in December 2020, the Trust has completed the self assessment against standards, put an action plan in place for variation, submitted through internal governance, and viewed at Public Board.

In more general terms, WAHT's current approach to improvement is the NHS Quality Service Improvement Redesign (QSIR) programme which has been progressively established in a piecemeal way by the Trust and Herefordshire and Worcestershire STP since 2017. It allows staff to self-select to access training and emphasises an extensive set of service improvement tools and techniques. Further elements of the Trust's improvement approach lie in the 3 year Quality Improvement Strategy written in 2018 to respond to the 5 Year Forward View and the July 2017 CQC report.

The Trust's strategy on a page and Clinical Services Strategy were published in 2019. A Single Improvement Methodology (SIM) was identified as the key underpinning principle and as critical to supporting the changes needed. Its purpose is to provide a framework for improvement in which all staff come to recognise a way of working that embeds improvement principles and behaviours, so they are equipped to improve the quality, safety, efficiency and experience of care, in line with the purpose of putting patients first. The SIM is seen as critical to realisation of the Trust's strategy and continuing improvement of services.

The scale of programme of work to design, implement and embed an organisation-wide single improvement methodology means that the Trust needs support to deliver its ambition in a timely and measured way and therefore the SIM will therefore be developed with the support of a partner.

Improving economy, efficiency and effectiveness (continued)

Learning from benchmarking

There is some evidence that Model Hospital, Getting it Right First Time (GIRFT) and Service Line Reporting (SLR) are used to identify and deliver opportunities at the Trust, however the improvement opportunities identified are not always followed through to maximise the potential benefit.

GIRFT: Pre-Covid, the Trust adopted 30 GIRFT workstreams at various stages of the process with differing levels of engagement at directorate and organisational level. The GIRFT programme was paused in March 2020 in response to Covid and reset In July 2020. Since August, WAHT have partaken in 3 deep dives and 2 national webinars, in response to 2 national reports.

The GIRFT programme is embedded within the NHS Long Term Plan and is recognised by the CQC as part of the Use of Resources Assessment Framework. Trusts are expected to demonstrate engagement with GIRFT and the resultant impact on services and patient care. This is an issue for WAHT as there is currently not a robust governance framework in place to ensure ongoing engagement, delivery and scrutiny of GIRFT activity and no regular reporting and oversight from the Trust Board. The impact of not accepting the recommendations are multiple:

- Trust reputation with the National GIRFT team (in turn informing regulators);
- lost opportunities to change to improve care and patient outcomes;
- delivering efficiencies such as the reduction of unnecessary procedures and
- cost savings whilst aiming to continue to provide high quality care and access for patients within financial constraints.

To progress the GIRFT programme internally, the Trust have developed and implemented a GIRFT Action Group which will facilitate improvement activities, monitor performance and coaching and guide divisions to align GIRFT opportunities and recommendations (local and national) with current schemes such as Annual Planning, Clinical Strategy and PEP to avoid duplication of works.

Model Hospital, A February update to TME included the key opportunities identified of which the largest were:

- Estates & Facilities (£31.1m - £41.3m),
- Workforce (£9.5m - £18.9m),
- General Medicine (£8.3m - £12.5m),
- Obstetrics & Gynaecology (£9.9m - £12.5m).

The Trust's PFI costs are seen as the key contributory factor to achieving some of the financial opportunity and more work is required to understand the potential for improvement based on the other opportunities. Example cited include improved use by the system to use all of the estate across the footprint across Worcestershire and similarly seeking opportunities for making savings on bank and agency use, again through a more system based approach to drive out savings.

P2G have been commissioned to work with the Trust on examining and challenging the arrangements and understanding what can be controlled. The Trust's Estates strategy still needs to be fully developed and implemented.

Service Level Reporting (SLR): is being developed and strengthened but this is not yet universally understood and utilised across all the divisions. SLR identifies specialist areas and manages them as distinct operational units. It enables trusts to understand their performance and organise their services in a way which benefits patients and delivers efficiencies. It also provides a structure within which clinicians can take the lead on service development, resulting in better patient care.

As described above, the Trust is making progress on benchmarking however there is currently limited evidence of improvement opportunities being actioned in 2020/21, or early 2021/22 and we have not yet seen that it is being systematically used across the Trust.

Improving economy, efficiency and effectiveness (continued)

Learning from regulators

It is evident that the Trust is proactively working on CQC action plans. Since July 2015 there have been nine announced inspections; a number of unannounced Core Service inspections, three focused inspections of Urgent Care Services, and a focused inspection of Maternity Services. The Trust's Emergency Departments were inspected as part of the CQC's focused winter programme in December 2019. Following this inspection, the CQC issued Section 31 Conditions Notices for the Worcestershire Royal Hospital and Alexandra General Hospital Emergency Departments. In partnership with NHSI/E, CCG and WMAS, safety, quality, risk assessment and assurance tools and processes have been implemented and embedded across the service. Oversight of the continuous improvement has been monitored via the Trust's internal governance structure and the Home first Worcestershire Board.

The Trust's Quality Hub now leads on improvement, responding to CQC improvement findings and managing the relationship with CQC. The Hub also helps support wards and prepare them for inspection. They now engage with the regulator in a different way – encourage them to come on site, meet with matrons, build relationships. The Trust has a monthly meeting with its CQC inspection manager and CQC relationship manager.

In September 2020, it was confirmed that the Trust has been lifted out of quality special measures after almost five years and the enforcement notices on Urgent Care have also been recently lifted.

Overall it is evident that the Trust is making progress on CQC recommendations which has been aided by the Quality Hub, resulting in the Trust coming out of special measures during 2020/21 and the S31 notices on Urgent Care being removed. However, the Maternity inspection resulted in a downgrade for the service in year from 'good' to 'requires improvement' and there have been clear issues in the department during 2020/21. The Trust is taking action to address these matters through the Maternity Service Overarching Transformational Action Plan and with the support of the NHSI/E Maternity Safety Support Programme and this needs to remain a focus for 2021/22

Workforce benchmarking

Agency costs: The Trust remains reliant on agency staff. Agency cost is a well documented pressure for the Trust, it remains an outlier driven in part by the reputational problems of the Trust causing difficulties in retaining and attracting staff.
This year the Trust has taken the conscious decision to open wards and use bank/agency to meet patient needs. Staff have been redeployed to deal with the pandemic emergency and thus the picture is complex in a pandemic year but over the last 12 months the number of staff in post has increased by 248 WTE. The Trust has seen a recent improvement in the vacancy rate putting the Trust below the national ONS average of 8.1% and the Model Hospital Average of 7.37%.
However, it is noted that this increased in Q1 2021/22, with the substantive vacancy rate jumping to 10.1% due to increases in establishment and reductions in contracted staff in post.
The agency usage summary shows that 2020/21 total costs were £23.0m, representing a 6.9% agency usage. This was £5.7m above the agency cap for 2020/21. Moving forward there needs to be an improvement on the grip and control of bank and agency spend. The Trust aims to reduce reliance on the temporary workforce and thereby reduce premium staffing costs through Trust and system based actions. A number of workstreams have been developed across the system to understand and drive out some of the cultures and activity that is causing this high dependency.

Improving economy, efficiency and effectiveness (continued)

Procurement and contract management

Poorly managed contracts through their lifetime could mean that the Trust has not derived the VFM or operational benefits expected at point of award. Additionally, late and unplanned contract renewals often lead to ineffective contract extensions and financial loss. High waiver activity as reported to the Audit Committee could be indicative of poor contract management at the Trust.

There has been a history of high waivers at the Trust, exacerbated by the lack of proactive contract management, causing too tight a timescale for competitive tendering. It has been acknowledged that the high number of waivers reflect a potential degree of complacency and the themes and rationale should be challenged, for example where there is no alternative action. Waivers also increased in 2020/21 due to the No PO / No Pay policy. There were 115 waivers in 2020/21 which totalled £19.4m, with the peak being in May and June 2020 at approx £4m each month. It is expected that the improved contract management oversight and reduction in the acceptable exceptions list will result in a reduction in waivers, however these remained excessive during the reporting period. KPIs and comparative data has started to be included in the waiver reports to Audit Committee for 2021/22 to provide context. Little comparative data existed as to what is an acceptable level of waived tender spend so the Procurement team will request data from all Acute providers in the Region, however per the July 2021 report, it was highlighted that Heart of England NHS FT had controlled waived spend to £1m on a spend of £160m which should be achievable for this Trust.

There is general recognition in the Trust that there was not proper contract or supplier contract management in 2020/21. There is also poor quality and productivity scores for the service and poor data to support the contract process.

There is now a six point Procurement Transformation Plan in place to address the known issues within procurement at the Trust. September 2020 saw the Trust going live with a DHSC funded system, Atamis. This will enable the Trust to move from limited excel based spreadsheet to a web based system. The building of contact records was completed in March 2021 (674 legacy and expired contracts totalling £59m and 277 live contracts totalling £163m).

Performance management KPIs are starting to be used, and Elekta KPIs are now in the Atamis. The system works on a RAG status of Overdue (Red), Due (Amber) and Not Due Yet (Green). The system will send an alert via email to the Contracts Managers or the supplier to confirm that the KPIs need completing within a defined window. KPIs for the Pathology MES will be the first formal contract that will have fully automated and loaded KPIs managed by the end users and contracts manager. The contract start date is 01 September 2021 and the KPIs are being signed off by Beckman Coulter and Capsticks before being loaded into the system.

Actions are being progressed across the Trust and in collaboration with eight partner trusts to deliver lower unit prices for products that deliver good outcomes along with internal process and system improvements.

Whilst we acknowledge that the Procurement Transformation Plan continues to make steady progress in addressing core data, system and collaboration themes, sufficient arrangements were not in place during 2020/21 and have since been progressed in early 2021-22.

Improving economy, efficiency and effectiveness (continued)

ICS wide considerations

We have seen that relationships with other members of the ICS have improved and we have seen evidence of collaboration across the system. We noted some concerns within the ICS team over the pace of development, particularly in regard to QIPP savings under the Better use of resources project. This appears to reflect capacity concerns among members to manage business as usual at their respective organisations, while also devoting time and energy to ICS strategic development and then implementing operational change. The ICS and member organisations should focus on how to address this challenge.

The development of large scale system transformation programme is underway, including the Better Use of Resources project mentioned previously. This has made inroads in terms of setting up the governance and project management arrangements and has started to use benchmarking and other analysis to assess the potential cross system benefits in areas such as workforce, digitisation, productivity and left shift (improving the efficiency of modes of care assigned to patients). There remain challenges in terms of attaching defined financial benefits to the proposed changes, however – this programme is expected to make a major contribution to closing any projected medium term funding deficit across the system.

While not an ideal scenario, the absence of a medium-term financial plan for the system at this point is not unreasonable in the circumstances described, and clear progress is being made.

Summary

In order to put the Trust on a sustainable footing, financially and operationally, management has recognised that there are several key strategies that need to be in place, but are not currently. The Trust has a principles based clinical strategy that will be further developed with partners. Work is being undertaken to support development of a sustainable workforce strategy and an Estates Strategy, however these are not yet in place. The Trust has recognised these as two of its annual plan priorities for the forthcoming year. Recognising that these two areas represent a considerable proportion of the Trust's core spending, where the Trust remains an outlier in its levels of spending compared to other NHS organisations, having clear plans in place to realise reduced cost opportunities in these areas is vital to enable the Trust to produce a meaningful medium term plan for achieving long term financial sustainability. We therefore consider the absence of these strategies as a significant weakness.

From our interviews and document reviews it is clear that the Trust has lacked the necessary investment in its IT, although this is now more recently being addressed through the much needed digital strategy. Out of date information systems have led to weaknesses in data quality and management information. We have also seen that benchmarking information, such as model hospital, whilst referenced in many of the Trust's oversight processes, is not systematically used across the Trust to understand and realise opportunities to reduce costs, develop further efficiencies and improve productivity. We therefore consider that the use of and adequacy of underlying information to support management decision making and planning is a significant weakness.

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how NHS services are delivered.

We have considered how the Trust's arrangements have adapted to respond to the new risks they are facing.

The global outbreak of the Covid-19 pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented.

Governance

Gold Command meetings were led by the Chief Executive to maintain oversight of the trust-wide operational response, management of risks to the delivery and recovery of safe, effective services to patients and the safety and wellbeing of staff.

The Trust reviewed the use of its three sites and moved services so that COVID patients were directed to just 1 site, reducing the risk of infection to inpatient and outpatients at the other two sites.

Financial sustainability

Additional COVID expenditure was approved by senior finance personnel and this and COVID related income was separately recorded to inform forward planning.

Improving economy, efficiency and effectiveness

During the pandemic, effective clinical engagement has enabled new ways of working to be identified, which have been implemented in line with infection control requirements.

Non face-to-face outpatient consultations have been undertaken, either over the telephone or using secure video conferencing technology.

Whilst there is not a finalised estates strategy in place, response to the pandemic forced the Trust into considering how to use its estate more effectively.

The Trust has been forced to work more effectively with its partners to reduce time in hospital to both minimise the risks to patients but also to improve capacity to respond to the covid cases. Lessons can be learned from this improved 'patient flow.' and the improved focus on discharge pathways in both the acute and community settings.

Summary

We have not identified any significant weaknesses in the Trust's arrangements to adapt and respond to the pandemic.

Improvement recommendations

Financial sustainability

01	**Recommendation**	The Trust should develop its medium term financial plans as soon as practicable. Where guidance is not yet in place, scenario planning should be utilised to ensure that the Trust is able to adapt to requirements in an agile manner.
	Why/impact	The Trust has been operating in unprecedented times which has required attention to be moved away from 'business as usual' activities to focus on a response to the pandemic. Assuming there are no further Covid waves, the Trust will need to return its attention to medium term planning to ensure it can plan accordingly for future financial resilience and sustainability.
	Auditor judgement	This is not considered to be a significant weakness given the environment the Trust has been operating in, but as the Trust returns to a 'business as usual' state it will need to revisit its medium term projections when greater clarity is provided.
	Summary findings	In common with other organisations the medium term planning has not been formal due to lack of guidance. Regardless, the Trust endeavoured to look ahead and considered a high level financial outlook for 2021/22 in January 2020 which was refined further as more guidance became known. This would be less than ideal if the Trust was in a business as usual environment, but understandably due to the pandemic and associated lack of certainty over funding, that medium term planning has been curtailed.
	Management comment	A comprehensive medium term plan is currently being developed and will be presented to the board in December 2021

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Financial sustainability

02	**Recommendation**	The Trust should review its ICS Finance Forum agenda to place greater emphasis on scenario analysis to determine the potential range of future system deficits, and direct the generation of further mitigation strategies, contingencies and savings headroom in order to manage slippage and financial risk.
	Why/impact	Scenario planning is a critical element of developing a medium term plan.
	Auditor judgement	This is not considered to be a significant weakness. The ICS is making good progress in working together and in the current environment with uncertainty around the future financial regime it is not surprising that such planning is not yet in place.
	Summary findings	We have not seen extensive use of scenario analysis as part of the budget setting in 2020/21 and 2021/22.
	Management comment	A comprehensive medium term plan is currently being developed and will be presented to the board in December 2021.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

03	**Recommendation**	The Trust should ensure plans are in place to scale up its implementation and use of Service Line Reporting across the organisation
	Why/impact	Service line reporting is the Trust's developing tool for financial planning and to engage clinicians and directors in budget setting. The approach will be used to target and address high-cost service delivery and better inform its plans to improve productivity
	Auditor judgement	We do not consider this to be a significant weakness because the Trust is actively developing service line reporting and in a COVID year it is unsurprising that the approach is not yet fully embedded.
	Summary findings	Service line reporting is not yet embedded in financial management processes.
	Management comment	Robust plans to improve productivity and efficiency are being developed as a key part of the medium term plan. The plan will also confirm the key investment priorities aligned with clinical strategy and the plan to develop and enhance the estate referred to earlier in this report.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

04	**Recommendation**	The Trust should ensure that actions arising from CQC's review of maternity services are addressed and implemented to improve performance of this service.
	Why/impact	The quality of maternity services has been judged to have deteriorated by the Trust regulator
	Auditor judgement	This is not a significant weakness as we have seen that the Trust is taking steps to respond to the inspection and whilst the rating dropped from Good to requires improvement which is clearly disappointing, the overall CQC assessment for the Trust has improved form 2019.
	Summary findings	An unannounced inspection was made following complaints about the service. The inspection found that services were not adequate in a number of areas, but in particular there were issues around the level of staffing.
	Management comment	A plan has been developed to address these requirements and is being actively reported through TME and board to ensure delivery.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

05	**Recommendation**	The Trust should continue to monitor and implement its improvement plans across its procurement function, to support the development of effective contract monitoring arrangements and supplier performance management capability including reporting KPIs, compliance and performance.
	Why/impact	Effective contract arrangements are key to the Trust achieving value for money in its purchasing.
	Auditor judgement	Whilst it is acknowledged that arrangements have not been effective for some time, the Trust has provided clear evidence of leadership and investment in addressing the weakness and therefore we do not consider that this is a significant weakness.
	Summary findings	Contract management and procurement are recognised by the Trust to have not been effective in 2020/21 and previously, and it is likely that this will have resulted in additional costs or savings not being achieved.
	Management comment	Significant progress has already been made to strengthen procurement practices. Proactive contract management is the responsibility of budget holders and is enforced through the quarterly PRM (performance review meeting) process to ensure continual improvement.

The range of recommendations that external auditors can make is explained in Appendix C.

Opinion on the financial statements

Audit opinion on the financial statements

We gave a qualified opinion on the accounts on the financial statements on 15 June 2021 to reflect a limitation of scope over the brought forward stock balance and the need for any adjustment of this balance and the consequential effect on the drugs costs and supplies and services for the year ended 31 March 2021.

We did not report any material unadjusted misstatements to the accounts. A number of disclosure changes were made to provide improved clarity of reporting. We also reported some adjustments in relation to the Trust's provisions and made a recommendation on how these liabilities can be better supported by working papers in future years.

Preparation of the accounts

The Trust provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordaince with relevenat accounting standards
- Prepared in accordance with relevent UK legislation

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Trust's Audit Committee on 9 June 2021.

Other opinion/key findings

We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies were identified.

We are also required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the Act, directed by the Secretary of State with the consent of the Treasury.

We have audited the elements of the Remuneration Report and Staff Report, as required by the Code.

We issued an unmodified opinion in this regard on 15 June 2021.

We also reported no significant issues in relation to the Trust's:

- Annual Governance Statement; and
- Annual Report.

Whole of Government Accounts

To support the audit of Consolidated NHS Provider Accounts, the Department of Health and Social Care group accounts, and the Whole of Government Accounts, we are required to examine and report on the consistency of the Trust's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We did not identify any matters from our work and our reporting to the NAO simply reflected the adjustments as reported in the AFR that we are required to report as part of this process.

Appendices

Appendix A - Responsibilities of the NHS Trust

Role of the directors of the Trust:

- Preparation of the statement of accounts
- Assessing the Trust's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The directors of the Trust are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are required to comply with the Department of Health & Social Care Group Accounting Manual and prepare the financial statements on a going concern basis, unless the Trust is informed of the intention for dissolution without transfer of services or function to another entity. An organisation prepares accounts as a 'going concern' when it can reasonably expect to continue to function for the foreseeable future, usually regarded as at least the next 12 months.

The Trust is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Appendix B - Risks of significant weaknesses - our procedures and conclusions

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, the conclusions we have drawn and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability was identified as a potential significant weakness, see page 11 for more details.	We have considered the Trusts arrangements to develop the underpinning strategies key to developing a medium term plan. We have considered the financial outturn in 2020/21 and how the Trust has worked with partners witing the STP	The Trust does not have in place a medium term financial strategy. Due to the exceptional year and the known uncertainties with the financial regime the absence of a medium term financial strategy is common in the sector and is understandable in the circumstances. We therefore do not consider that this should therefore be assessed as a significant weakness. We have considered the underlying strategies as part of the work on 3 Es	Appropriate arrangements are in place, with one improvement recommendation made.
Improving economy, efficiency and effectiveness was identified as a significant weakness, a more detailed review was undertaken see page 17 for further information	We considered a number of areas including the Trusts operational performance, its use of benchmarking and approach to procurement. We also considered how the Trust works with partners.	We identified some clear evidence of significant progress in many areas and where we have identified weaknesses , these have already been addressed by the Trust and in some areas clear plans are in place for improvement. We have considered the arrangements operating in the financial year 2020/21 as required by the NAO guidance and evidence of progress in order to judge whether weaknesses are improvement or significant weakness.	Significant weaknesses identified in three areas and three key recommendations raised.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Trust's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Trust under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Trust. We have defined these recommendations as 'key recommendations'.	Yes	7
Improvement	These recommendations, if implemented should improve the arrangements in place at the Trust, but are not a result of identifying significant weaknesses in the Trust's arrangements.	Yes	26