The Annual Audit Letter for Wye Valley NHS Trust

Year ended 31 March 2020

17 July 2020

Contents

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Appendices

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Wye Valley NHS Trust (the Trust) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Trust and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Trust's Audit Committee as those charged with governance in our Audit Findings Report on 18 June 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Trust's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality to be £3.3m (PY:3.21m) for the Trust, which equates to 1.5% of prior year gross operating costs for the year.
Financial Statements opinion	We gave a qualified opinion on the Trust's financial statements on 22 June 2020. We qualified the audit opinion due to a limitation of scope relating to the Trust being unable to undertake all relevant stocktakes at year end due to the pandemic and our team being unable to attend the Trust's stocktakes at year end. We included a going concern material uncertainty paragraph in our report on the Trust's financial statements to draw attention to the note which explains the basis on which the Trust has determined that it is still a going concern. We included an emphasis of matter paragraph in our report on the uncertainty over asset valuations as at 31 March 2020 given the pandemic. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.
NHS Group consolidation template (WGA)	We also reported on the consistency of the financial statements consolidation template provided to the National Audit Office with the audited financial statements. We concluded that these were consistent.
Use of statutory powers	We made a s30 referral to the Secretary of State on the 7 May 2019 due to the statutory duty of expenditure being covered by income (i.e. breakeven duty) over a rolling three-year period ending 31 March 2020 being breached. We have not exercised any of our other additional powers or duties.

Executive Summary

Value for Money arrangements	We were not satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in the use of resources. We therefore issued an adverse value for money conclusion in our audit report to the Directors of the Trust on 22 June 2020.
Quality Accounts	Due to the Covid-19 pandemic, the Department of Health and Social Care suspended the requirement for the Trust's Quality Accounts to be certified.
Certificate	We certified that we have completed the audit of the financial statements of Wye Valley NHS Trust in accordance with the requirements of the Code of Audit Practice on 22 June 2020.

Working with the Trust

Restrictions for non-essential travel due to the COVID-19 pandemic meant both Trust and audit teams had to implement new remote access working arrangements i.e. remote accessing financial systems, video calling, physical verification of assets and completeness accuracy of information produced by the entity. Whilst these procedures did extend the audit time required and did result a limitation of scope due to our inability to attend stock counts, we were pleased that we were able to work with the Trust's finance team to successfully complete the audit in exceptional circumstances.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff during these extraordinary times.

Grant Thornton UK LLP
July 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Trust's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Trust’s financial statements to be £3.3 million, which is 1.5% of the Trust’s gross revenue expenditure. We used this benchmark as, in our view, users of the Trust's financial statements are most interested in where the Trust has spent its revenue in the year.

We set a lower threshold of £0.17 million, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Trust's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid – 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • remote working arrangements and redeployment of staff to critical front-line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; • volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; • financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties have arisen; and • disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1.	We: • worked with management to understand the implications the response to the Covid-19 pandemic have on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications for our materiality calculations; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence can be obtained in the absence of physical verification of assets through remote technology; • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	The Covid-19 pandemic led to RICS publishing guidance in relation to the impact of this on PPE valuations, issued on the 2 April 2020. The Trust's valuation report states that valuations are reported on the basis of 'material valuation uncertainty' and consequently less certainty and a higher degree of caution should be attached to the valuations than would normally be the case. An emphasis of matter paragraph is included within the audit opinion in respect of the valuers 'material valuation uncertainty'. Despite efforts made, due to the national lockdown arising from the Covid-19 pandemic, the Trust did not count all its physical inventories at year end, and we did not observe the counting of physical inventories for those that did take place. We were unable to obtain the sufficient appropriate audit evidence, as required by auditing standards, regarding the inventory quantities held at 31 March 2020, which have a carrying amount in the Statement of Financial Position of £3.83 million. Related balances such as drug costs and supplies and services may be materially misstated for the same reason.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Revenue recognition Trusts are facing significant external pressure to restrain budget overspends and meet externally set financial targets, coupled with increasing patient demand and cost pressures. In this environment, we have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue. We have rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We have determined these to be income from: • block contract income element of patient care revenues; and • education & training income. We have not deemed it appropriate to rebut this presumed risk for all other material streams of patient care income and other operating revenue. We have therefore identified the occurrence and accuracy of these income streams of the Trust and the existence of associated receivable balances as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated accounting policy for recognition of income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2019/20; • updated our understanding of the system for accounting for income from patient care activities and other income and evaluated the design of the associated controls; • sample tested healthcare revenues from Commissioners and NHS England. Our work included testing income from contract variations and year end receivables to signed contract variations, invoices or other supporting evidence such as correspondence from commissioners; • sample tested Education and Training income; • reviewed the NHS agreement of balances tool to verify that the healthcare year end balances agree with commissioning bodies returns; • reviewed year end provision against amounts billed to NHS institutions and other customers; and • for Provider Sustainability Funding, Financial Recovery Funding and Marginal Rate Emergency Tariff funding we agreed income recognised to NHS Improvement notifications.	Our audit work did not identify any issues in respect of income recognition.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Trust faces external pressures to meet agreed targets, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.	Our audit work did not identify any issues in respect of management override of controls
Going concern material uncertainty disclosures The Trust is facing significant financial challenges and has reported a deficit position for 2019/20, with a further budget deficit forecast for 2020/21. The Trust will therefore require further cash support. In addition, due to the unprecedented response to the Covid-19 pandemic, there have been delays to agreement of contract income for 2020/21. We therefore identified the adequacy of disclosures relating to material uncertainties that may cast doubt on the Trust's ability to continue as a going concern in the financial statements as a significant risk.	We: • reviewed the Trust's initial 2020/21 financial plan and the assumptions therein. • Reviewed management's assessment of going concern • reviewed the NHS's current Covid-19 funding arrangements and the support available.	The delivery of the initial 2020/21 financial plan is highly demanding, dependent on full delivery of cost reduction targets, realisation of recurrent savings and the adherence to agreed budgets. The receipt of non-recurrent Financial Recovery Funding, which has not yet been formally agreed, would be required for a break-even position. The above factors represent material uncertainties that may cast significant doubt over the Trust's ability to continue as a going concern. However, the Trust still has reasonable expectations that it will have adequate resources to continue in operational existence for the foreseeable future. The Trust disclosed these matters within the financial statements appropriately. The material going concern uncertainty was also reflected within our opinion.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Trust revalues land and buildings on a five-yearly basis to ensure the carrying value in the financial statements is not materially different from current value at the financial statements date. In the intervening years, such as 2019/20, the Trust requested a desktop valuation from the valuation expert (District Valuer). This valuation represents a significant estimate by management in the financial statements. In valuing the Trust's estate, management has assumed that for a number of sites, in the event they needed to be replaced, they would be rebuilt to modern conditions with specialist services valued on an alternative site (MEA). We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have undertaken the following work: • review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of any management experts used; • review of the instructions issued to valuation experts and the scope of their work; • discussion with the valuer the basis on which the valuation was carried out, challenging the key assumptions; • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; • testing of revaluations made during the year to ensure they were input correctly into your asset register; and • evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	Due to the potential impact that Covid-19 has on the value of land and buildings, the District Valuer disclosed a material uncertainty within the 31 March 2020 valuation report in common with the majority of NHS Trusts. The Trust reflected the material uncertainty within its accounting policies. We reflected this disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and regulators are expecting these emphasis of matter paragraphs.

Audit of the Financial Statements

Audit opinion

We gave a qualified opinion due to limitation of scope on stock (LoS) on the Trust's financial statements on 22 June 2020. Given the fact the majority of the audit had to be undertaken during the lockdown, we worked with Trust finance staff throughout the audit on a remote basis. One of the consequences of the lockdown situation we have faced is that in March we were unable to attend the Trust's physical stocktakes for its material inventories, as required by auditing standards. This has meant that we needed to issue a 'limitation of scope' qualification to our audit opinion. It is important to stress that this does not mean we have concerns with the inventory balances reported in the Trust's accounts or its controls over the items of stock – it is merely the fact that we could not complete the audit tests as required by the auditing standards and, as a result, could not confirm to the level required by the standards that the balances were or were not materially misstated. Whilst qualifications are normally a serious matter, in this case we had discussed the situation as soon as it became apparent in early March with the other firms undertaking NHS trust audits and collectively with the Trust's Regulators (NHS England & Improvement). NHSE&I were content with the outcome, given the particular circumstances of the lockdown this year and confirmed that there would be no adverse consequences for any trusts receiving such qualifications, from their perspective.

The issue only applied to trusts with material inventory balances but did result in LoS qualifications being issued by all firms across 36 trusts.

Preparation of the financial statements

The Trust presented us with draft financial statements in accordance with the national deadline. Delays due to the pandemic lockdown did occur in regard to the availability of working papers in a timely manner. This was discussed with Trust management and reported to the Audit Committee as part of our Audit Findings Report and has led to additional fees as outlined in Appendix A.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Trust's Audit Committee on 22 June 2020.

Annual Report, including the Annual Governance Statement

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. We identified some areas for improvement within the Annual Governance Statement which were actioned by management.

Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

Other statutory powers We made a s30 referral to the Secretary of State on the 7 May 2019 due to the statutory duty of expenditure being covered by income (i.e. breakeven duty) over a rolling three-year period ending 31 March 2020 being breached.

We have not exercised any of our other additional powers or duties.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Wye Valley NHS Trust in accordance with the requirements of the Code of Audit Practice on 22 June 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Trust in June 2020, we agreed recommendations to address our findings.

We have focused our work on the significant risks that we identified in the Trust's arrangements. In arriving at our conclusion, our main considerations were:

- there have been a number of key improvements at the Trust including successfully hitting its financial control total, delivering CPIP (Cost and Productivity Improvement Plan) savings, implementing aspects of the workforce strategy and improving partnership working with NHS Herefordshire CCG;
- although the Trust was successful in meeting it’s control total for 2019/20, the pre PSF and FRP result was a significant deficit compared to turnover and has added to an ever increasing cumulative deficit;
- savings made by the Trust relied on a significant proportion of non-recurrent savings;
- the Trust’s working capital position has been funded previously through significant borrowing with the Trust reliant on revenue and capital loans to meet its financial obligations. The Trust is reliant on capital loans to fund its capital expenditure and investment in infrastructure;
- the Trust’s continued high reliance on agency staff to deliver services which has significant financial implications. The Trust also continues to report high sickness rates;
- the Trust failed to meet a number of key national targets such as Accident and Emergency 4 hour wait and Referral to treatment (RTT) waiting times; and
- the Trust’s latest CQC inspection rated the Trust overall as ‘requires improvement’, a slight improvement from the ‘inadequate’ previously received. A s29a notice was given to the Trust due to significant improvements in the quality of healthcare required in parts of the Trust.

Overall Value for Money conclusion

Despite some positive signs of improvement in a number of areas and driven by inherent locational, demographic and economy of scale factors impacting the Trust, because of the significance of the matters we identified in respect of future financial sustainability and workforce arrangements, we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore gave an adverse conclusion.

Value for Money

Key findings

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Risks identified in our Audit Plan

Financial Sustainability

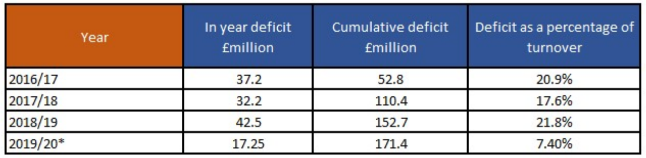
As at Month 9, the Trust is forecasting to achieve it's control total of a £35.25 million deficit (pre PSF and FRF). Achievement of this will mean the Trust will receive a total of £17.99 million PSF and FRF funding bringing the final position to a £17.25 million deficit. This will be challenging for the Trust to achieve with a year to date variance of £1.11 million which will require to be recovered over the last 3 months and a number of other challenges which may impact on the achievement of the control total at year end.

We will:

- review the Trust's arrangements for monitoring and managing delivery of budgets and savings plans for updating, agreeing and monitoring its financial plans and communicating key findings to the board; and
- monitor the Trust's outturn position for 2019/20 and the arrangements for developing and agreeing the 2020/21 budgets, including the identification of savings plans and consider the level of risk within these plans.

Commentary

At month 12, the Trust is reporting achievement of it's control total of £35.25 million (pre PSF and FRF). The Trust were therefore entitled to receive the planned full available PSF and FRF funding totalling £17.99 million. This therefore means the final reported position for 2019/20 is a £17.25 million deficit, reflecting the Trust's lowest in year deficit position for a number of years.



Year	In year deficit £million	Cumulative deficit £million	Deficit as a percentage of turnover
2016/17	37.2	52.8	20.9%
2017/18	32.2	110.4	17.6%
2018/19	42.5	152.7	21.8%
2019/20*	17.25	171.4	7.40%

*Note the 2019/20 postion includes PSF and FRF funding totalling £17.99 million

Although the achievement of the control total is a positive reflection of the Trust's in year arrangements for monitoring and managing the delivery of challenging budgets and savings plans, the pre PSF and FRF deficit position in 2019/20 of £35.25 million is significant given the size of the Trust, with this deficit being 15% of overall turnover. This reflects a number of somewhat uncontrollable issues faced by the Trust which mean under the current funding arrangements, question are raised regarding the Trust's financial sustainability.

The main challenges faced by the trust include:

- the geographical constraints of the Trust;
- a PFI scheme with high annual payments;
- a relatively low volume of elective activity;
- having a low population density whilst offering a wide range of services; and
- reliance on high levels of borrowing.

The Trust continued to require significant cash support in 2019/20 with the total revenue loans outstanding at 31 March 2020 £164.7 million and capital loans outstanding totalling £28.5 million. The Trust's challenging cash position is in part due to the historical deficit position and PFI commitments. The announcement made in April 2020 that Department of Health interim loans will be transferred to PDC from August will improve the Trust's balance sheet position going forward in 2020/21 with the transfer of £193 million of loans to PDC. Interest on loans ceased from 1 April 20, although the Trust will be required to pay PDC dividend going forward, this is expected to be less than the interest on the loans. Regardless of this change, the Trust will still require revenue support going forward, although the format of this is yet to be determined.

Value for Money

Key findings

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Risks identified in our Audit Plan

Financial Sustainability

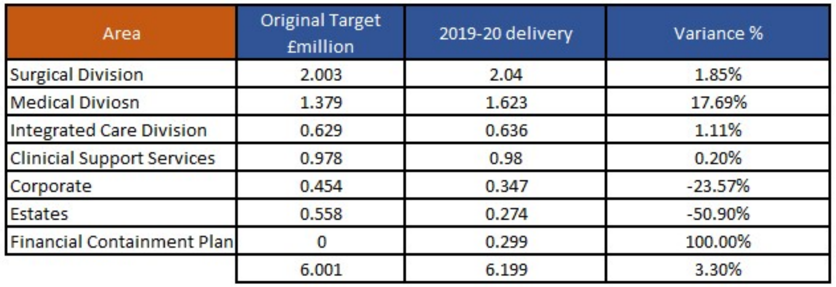
As at Month 9, the Trust is forecasting to achieve it’s control total of a £35.25 million deficit (pre PSF and FRF). Achievement of this will mean the Trust will receive a total of £17.99 million PSF and FRF funding bringing the final position to a £17.25 million deficit. This will be challenging for the Trust to achieve with a year to date variance of £1.11 million which will require to be recovered over the last 3 months and a number of other challenges which may impact on the achievement of the control total at year end.

We will

- review the Trust's arrangements for monitoring and managing delivery of budgets and savings plans for updating, agreeing and monitoring its financial plans and communicating key findings to the Board.
- monitor the Trust's outturn position for 2019/20 and the arrangements for developing and agreeing the 2020/21 budgets, including the identification of savings plans and consider the level of risk within these plans.

Commentary

The Trust set a CPIP (Cost Productivity Improvement Programme) target of £6 million and overall achieved savings totalling £6.2 million. Overall, 64% of the delivered savings were recurrent schemes, with the remaining 36% non-recurrent. The recurrent shortfall will add further pressure in the next financial year and therefore the Trust should continue to focus on developing and delivery recurrent schemes going forward. Although nationally cost improvement programmes have been suspended due to Covid-19, the Trust should not lose sight of the work done so far on identifying and initial work on 2020/21 CPIP schemes so far so these can be picked up in future.



Area	Original Target £million	2019-20 delivery	Variance %
Surgical Division	2.003	2.04	1.85%
Medical Diviosn	1.379	1.623	17.69%
Integrated Care Division	0.629	0.636	1.11%
Clinicial Support Services	0.978	0.98	0.20%
Corporate	0.454	0.347	-23.57%
Estates	0.558	0.274	-50.90%
Financial Containment Plan	0	0.299	100.00%
	6.001	6.199	3.30%

Looking forward, the financial plans and position for 2020/21 is currently unknown due to the Covid-19 pandemic. As with all NHS bodies, the Trust’s financial planning for the year ahead was suspended in March 2020 with confirmation of a block payment approach now confirmed to extended until October 2020, where the Trust will receive a fixed level of income which will be topped up to cover additional Covid-19 related costs.

Notwithstanding the progress and positive trajectory made by the Trust in 2019/20 and the successful achievement of it’s control total, the Trust continues to have an underlying structural deficit and a significant cumulative deficit at 31 March 20 of £171.4 million. The CQC review also noted improvements with Use of Resources rating moving from ‘inadequate’ to ‘requires improvement’. The Trust requires a fundamental change to its funding arrangements in order to move towards a more sustainable model going forward. The changes to the NHS funding going forward due to the Covid-19 pandemic may be the catalyst required by the Trust for beneficial change to the financial arrangements.

Due to the Trust’s significant reliance on borrowing and increased deficit position, along with the questions raised over the future sustainability of the Trust under current levels of funding available to the Trust, we have concluded that the arrangements in place for financial sustainability are inadequate.

Value for Money

Key findings

Risks identified in our Audit Plan

Operational Performance

The Trust has a high reliance on the use of agency staff with both medical and nursing temporary staffing costs running above the cap as at month 9. The expenditure on agency staff at month 9 totals £10.5 million which is above the annual cap of £8.39 million. The Trust is falling below its NHS constitution targets for a number of areas including RTT and A&E performance. The Trust has recently had a CQC inspection with the outcome of this due to be reported before the end of the financial year.

We will:

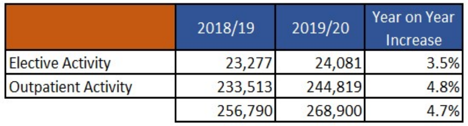
- review the Trust's arrangements for monitoring its operational performance and delivery of key constitutional targets and for communicating key findings to the Board;
- consider the outcome of the CQC inspection.

Commentary

The rating for the Trust's recent CQC inspection was published in March 2020 with a continuation of the Trust's overall 'requires improvement' rating. The report highlighted a number of improvements from the previous inspection which took place in 2018, in particular a 'good' overall rating given to urgent and emergency services, an overall improvement since the previous inspection. However, overall critical care and maternity overall ratings were lowered from 'good' to 'requires Improvement' And surgery lowered from 'requires improvement' to 'inadequate'. A section 29a warning Notice was served on the 15 January in relation to findings within maternity and midwifery services, surgical procedures and treatment of disease, disorder or injury.

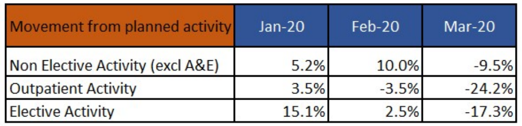
	Safe	Effective	Caring	Responsive	Well-led	Overall
2020 rating	Requires Improvement	Requires Improvement	Good	Requires Improvement	Requires Improvement	Requires Improvement
2018 rating	Requires Improvement	Requires Improvement	Good	Requires Improvement	Requires Improvement	Requires Improvement

The Trust is currently finalising an action plan that responds fully to the findings of the CQC report. The report covers the 'must' and 'should do's' included within the inspection report, regulatory breaches, initial section 29 response and the theatres plan. Due to the current operational pressures, the final plan was received by the Quality Committee in May 2020.



	2018/19	2019/20	Year on Year Increase
Elective Activity	23,277	24,081	3.5%
Outpatient Activity	233,513	244,819	4.8%
	256,790	268,900	4.7%

The Trust saw an overall increase in elective activity and outpatient activity from the prior year, although planned care did not achieve the overall activity plans. This was due to reduction in activity towards the latter end of the year mainly due to the flooding within Herefordshire and the suspension of routine in-patient and out-patient work done towards the end of March due to the Covid-19 pandemic. Overall, unplanned care exceeded the expected levels of activity, although as with planned care, a drop in activity was noted in March due to Covid-19 measures leading to reduced attendances . Prior to March, the increase in unplanned caused operational bed pressures further resulting in loss of elective activity. The impact of Covid-19 on activity levels will continue into 2019/20 and will likely have considerable impact on the Trust's operational plans for the foreseeable future.



Movement from planned activity	Jan-20	Feb-20	Mar-20
Non Elective Activity (excl A&E)	5.2%	10.0%	-9.5%
Outpatient Activity	3.5%	-3.5%	-24.2%
Elective Activity	15.1%	2.5%	-17.3%

The Trust has continued to remain within the 'expected' banding for it's mortality rates, with latest published SHMI (summary hospital-level mortality indicator) for the period to November 2019 of 103. This is a slight improvement on prior year and a positive continuation of progress since 2017/18 where the trust were within the 'higher than expected' banding.

The Trust's performance against operational performance targets is reported to the board through the monthly Integrated Performance Reports. The Trust continues to be below target for the constitutional operation performance standards including Referral to Treatment, Cancer and Accident & Emergency. Prior to Covid-19 and the impact of the pandemic, the Trust were not on track to meet a number of its constitutional operational performance targets for the 2019/20 year.

Value for Money

Key findings

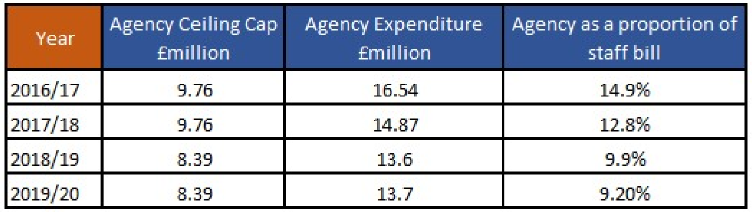
Risks identified in our Audit Plan	Commentary

Operational Performance continued

March saw an improvement in the achievement of the 4 hours Accident & Emergency target due to the reduced attendances, increased inpatient discharges and improved patient flow due to the Covid-19 measures. However, the cancellation of elective activity has had a negative impacted on the RTT performance. The Trust's English performance for RTT was 77.8% in March against the agreed trajectory of 82.6%. This is below the required 92% standard.

The Trust has continued to embed its workforce strategy in 2019/20, with the workforce model a key strand of the Trust's 10 point plan. A key area of the Trust's objectives for 2019/20 was to deliver the workforce plan, recruiting and retaining more staff and ensuring they are enabled to work at their full potential.

The Trust continues to rely on temporary staff to deliver services, with agency expenditure 63% above the annual cap of £8.39 million with the high costs continuing to add further pressure to the Trust's financial position. Covid-19 pressures towards year end saw an additional £0.089 million spent on agency staff in preparing for and treating patients during March.



Year	Agency Ceiling Cap £million	Agency Expenditure £million	Agency as a proportion of staff bill
2016/17	9.76	16.54	14.9%
2017/18	9.76	14.87	12.8%
2018/19	8.39	13.6	9.9%
2019/20	8.39	13.7	9.20%

The overall increase in agency costs from prior year, reflected an increase within each form of agency staff; nursing, medical and other. Expenditure with off framework agencies has significantly increased from the prior year (106% increase) which has offset savings available through the Master Vend model.

There has been positive trajectories with the turnover key performance indicator, with the rolling 12 month average turnover of 10.6% as at March 2020 compared to 11.5% in the previous year, reflecting a continued improvement in the stability of the workforce. The Trust attributes this in part to a successful staff engagement programme and investing in staff development. The vacancy rate key performance indicators is still above the Trust standards, however has shown some notable reductions throughout the year. Sickness continues to be an area of concern for the Trust, with the sickness absence rate above the Trust's internal target of 3.5% consistency for each month in 2019/20.

Given the significant impact of Covid-19 on workforce requirements going forward into the 2020/21 year, the Trust will need to revisit its workforce plan to include the short term impact of the pandemic and the longer term impact of recovery and reconfiguration following on from the pandemic.

Overall we are unable to conclude that the arrangements in place for operational performance are adequate in relation to workforce. Whilst we have identified improvements and progress, there is still further traction to be made to improve the overall position.

Value for Money

Key findings

Risks identified in our Audit Plan

Working with Partners

Our 2018/19 value for money audit reports raised a number concerns under the area of ‘working with partners to effectively deliver strategic priorities’ around collaborative and contractual working within the Herefordshire health system between Wye Valley NHS Trust (WVT) and NHS Herefordshire Clinical Commissioning Group (HCCG). It made recommendations to both organisations that operational and financial performance issues should be addressed on a more collaborative, system basis to benefit the patients of Herefordshire.

Approach

As part of the 2019/20 audit, it was agreed that these issues would be followed up with both organisations to assess whether progress has been made in addressing the concerns raised. We did this by using an auditor’s expert from our healthcare team who has significant experience of NHS contract management and negotiation and who had previously undertaken a detailed review at WVT in 2018/19. This year our objectives were to review:

- the 2019/20 contract agreement process and management,
- system working arrangements during 2019/20, and
- pre-Covid planning position for 2020/21.

Commentary

We largely limited our review to the arrangements in place pre-Covid, as our responsibilities are to consider the adequacy of the Trust’s overall arrangements for the year-ended 31 March 2020. We did, however, reflect upon the changes the pandemic would bring to partnership working arrangements when framing our recommendations for the future.

We interviewed key staff from both WVT and HCCG involved in the contract planning and management processes throughout the year, including the trust’s Director of Finance and Associate Director of Finance and the CCGs Chief Financial Officer and Deputy Chief Financial Officers. We also reviewed key documents and figures including:

- activity and financial plans agreed as part of the agreed contract for 2019/20;
- contract management reports;
- year-end deal documentation and financials;
- NHS E I Herefordshire system deep dive report;
- system financial recovery plans;
- system group reports, documentation and accounts produced for One Herefordshire strategy group and Herefordshire and Worcestershire STP planning group;
- system transformation savings plans;
- draft activity and financial planning proposals for 2020/21 (pre-Covid); and
- provisional proposed changes to contractual models for 2020/21 onwards.

Findings

Significant improvements in collaboration and system working between WVT and HCCG were evident in the second half of the financial year in 2019/20. While there had been progress in developing more collaborative working several ongoing issues remained during the first half of the financial year including:

- no agreed or signed contract for 2019/20 until September – five months into the financial year,
- ongoing issues around the activity and funding of growth, RTT trajectories and for the delivery of the Lucentis service for WVT which led to a £6m misalignment between plans, and
- ongoing disputed invoice of £8m from WVT relating to 2018/19 overperformance.

WVTs ongoing financial and operational deliverability risks and the lack of system agreed actions and plans led to the regulators (NHS England and Improvement) undertaking a ‘deep dive’ review in August 2019. The review concluded that the system was not addressing a £12.6m planning gap, that system working was transactional rather than collaborative and there was a lack of system-wide focus and actions on financial improvement and recovery. These were similar issues raised by us during our 2018/19 audit. It made a number of recommendations including the development of:

- a system level financial recovery plan,
- Board to Board working and challenge, and
- Herefordshire ‘Group’ accounts and plans.

Value for Money

Key findings

Risks identified in our Audit Plan	Commentary
Working with Partners (continued)	The contract for 2019/20 was formally agreed and signed in September, over five month into the year. This included a blended approach for urgent and emergency care and a PbR approach for planned elective and day case activity. While the contract was signed in September, there had been broad agreement to the approach and contracting arrangements were operating on this basis for the first five months of the year. Also, many of the long standing, historical contractual issues had been resolved through external facilitation support. The contact value agreed for acute and community services provided by WVT was £136m. WVT continued to plan for additional activity of £142m, a continuation of the original £6m planning gap. This led to a misalignment between WVT and the CCG plans. However, this was shared between both organisations and transparently reported. We are pleased to note that the improvement in relationships, the regulatory deep dive and agreement of contract led to significant improvements in system wide working being evident in the second half of 2019/20. This included: • production of a system level recovery plan, with weekly meetings to discuss actions and monitor position for the financial year and wider system savings plans, • more action-orientated discussions on system collaboration through the One Herefordshire strategy group and Herefordshire and Worcestershire STP planning group, • closer working between the organisational board members to improve transparency and understanding of issues impacting on system delivery and finances, and • establishment of a £25m cost out system programme with allocated executive leads and teams identified to support delivery. Following a review at month 9 of the forecast outturn position for the system, a year end deal was also agreed where the CCG funded an additional £1.5m for acute overperformance at WVT. This, and an agreement to further support if needed, ensured that WVT was able to meet its control total and deliver £18m of PSF and FRF funding into Herefordshire. It was also agreed that the historical £8m invoice from 2018/19 would be written off along with dropping outstanding contractual challenges. This agreement demonstrated considerable progress which had been achieved in system working during 2019/20 by drawing lines under previous contentious issues and agreeing collaboratively a financial position which would maximise funding for patients in Herefordshire. Following the onset of the Covid-19 pandemic in mid-March, NHS England suspended the 2020/21 planning process across all trusts and commissioners in England and introduced a four-month block contract agreement through to the end of July 2020. At that point there remained a £7m planning gap between the WVT and the latest CCG offer. The difference related to assumptions around: • growth in activity, • the assumptions for delivering elective RTT targets and trajectory for the Trust, • finalisation of QIPPs, and • continuing discussions on the delivery of Lucentis eye treatments.

Value for Money

Key findings

Risks identified in our Audit Plan	Commentary
Working with Partners (continued)	Despite these issues, both the Trust and CCG felt that this gap could have been bridged to ensure contracts were agreed in line with the national planning guidance timescales. A number of the issues related to long standing planning issues which both WVT and HCCG should seek to resolve in its post-Covid plans and agreements. Alongside the planning, it had been proposed to move towards a more collaborative contractual model across the local healthcare system whereby incentives are aligned and risks shared in relation to the delivery of system cost out savings plans. While this had not yet been agreed, it is another example progress being made during the latter half of the year towards more collaborative, system working. Both parties need to continue to work to further improve arrangements so that the financial plans for both 2020/21 and beyond can be delivered recognising the inherent uncertainty resulting form Covid-19. Conclusion and way forward **Given the improvements in partnership working and contractual relationships over the last 6 months of 2019/20, we now consider that both the Trust and CCG has adequate arrangements in place for working with partners. We do, however, believe that once the current de-risked block arrangements introduced as a result of the Covid pandemic unwind that this progress needs to be maintained and embedded. This includes continuing to resolve current differences in planning assumptions and genuinely delivering greater partnership working across the system that transforms the way health and social care is delivered that provides a sustainable operational and financial footing for acute and community services in Herefordshire.**

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

Reports issued

Report	Date issued
Audit Plan	February 2020
Audit Findings Report	June 2020
Annual Audit Letter	July 2020

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	63,500	63,500	63,000
Quality Accounts	8,000	0	8,000
Total fees	**71,500**	**63,500**	**71,800**

Since our audit plan was issued, NHS Improvement has removed the requirement for audited Quality Accounts for 2019/20.

Fees for non-audit services

Service	Fees £
Audit related services	Nil
Non-Audit related services	Nil

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