Auditor's Annual Report on Maidstone and Tunbridge Wells NHS Trust

2021-22

May 2022

Contents

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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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 recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Trust has put 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 weakness in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our consideration of this is included within each the three themes noted. Our conclusions are summarised in the table below.

Criteria	Risk Assessment	Conclusion
Governance	No risks of significant weakness identified	No significant weaknesses in arrangement but improvement recommendations made.
Improving economy, effectiveness and efficiency	No risks of significant weakness identified	No significant weaknesses in arrangement but improvement recommendations made.
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangement but improvement recommendations made.

Financial sustainability

The Trust has performed in line with the breakeven expectation for the sector at the end of 2021/22 by achieving an outturn position of £0.2m surplus. This was achieved as a result of the covid-19 funding regime in place as the Trust has received block funding and top-up funding via the local health system to support this position. The Trust has submitted its financial plan for the 2022/23 year which proposes a deficit of £7.6m. The plan includes risks of £15.8m however the Trust has been able to identify potential mitigations to fully cover the value of the risk. In addition, the Trust has sufficient cash reserves and other liquid assets to support the deficit position. Within the Trust's plan is commitment to achieve £20m of savings of which 40% are unidentified at the start of the financial year. We recommend the Trust prioritise work with divisions to identify these schemes as early as possible and work is ongoing to achieve this. A further iteration of the plan is now required by NHSEI from systems and providers and is due on the 20th June 2022, it is anticipated that there will be a focus on all systems coming back into balance for the June submission and therefore improvement to the existing planned position is expected. Overall the Trust's arrangements in relation to financial sustainability are appropriate, we have not identified any significant weaknesses but have raised some improvement recommendations.

Governance

Strategic risk management arrangements have been revised under a methodology used successfully by others in the sector. There is evidence the new methodology, although slightly different to the approach adopted by most in the sector, does manage risk appropriately. We have identified some minor improvements to both the strategic and operational risk management processes to enhance existing arrangements. In addition the Trust's short term budget setting process is appropriately managed. The remaining elements of the governance framework remain stable from the prior year.

Improving economy, efficiency and effectiveness

Performance monitoring arrangements remain largely consistent with the prior year and improvements have been made to ensure that the performance reporting is well aligned to the Trust strategy. There is evidence of successful working within the local Kent and Medway health system. We have identified one improvement recommendation to enhance existing arrangements around reporting of key workforce metrics in relation to agency spend.

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	Not applicable
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 have made a referral to the secretary of State under section 30 as a result of the underlying cumulative deficit that has led to a breach of the Trust's breakeven duty for the three-year period ending 31 March 2022.
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.	Not applicable

Commentary on the Trust's arrangements

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 is set out on pages 6 to 14. Further detail on how we approached our work is included in the Executive Summary.

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.

Overview

2021/22 continued to be an exceptional year in terms of financial planning and performance with the level of funding being provided to the Trust allowing them to achieve a breakeven financial position whilst focusing on responding to the pandemic effectively. Funding arrangements for 2022/23 have changed and as such financial sustainability is once again a priority for the sector.

Overall, the Trust has performed in line with the breakeven target set for the 2021/22 financial year. The 2022/23 plan, developed and submitted to NHSEI, projects a planned deficit of £7.6m. This is a relatively small deficit compared to others in the sector and whilst there are challenging savings targets required the Trust has a track record of achieving its financial targets. **We have not identified any weaknesses in arrangements around financial sustainability. We have made some minor improvement recommendations for consideration by the Trust.**

2021/22 Performance

In 2021/22, the majority of the Trust's income was received from its commissioners in the form of block contract arrangements. These funding envelopes, which determined the level of funding received by each Trust, were agreed by the local health system. The Trust also received additional income, outside of the block and system envelopes, to reimburse specific costs incurred and other income top-ups to support the delivery of services through the pandemic. The aim of this funding regime was to allow the sector to focus on the response to the pandemic and be funded to a breakeven position to support this aim. The Trust was also encouraged to focus on recovery of elective activity which was reduced during the activity at various stages due to social distancing, infection prevention controls and closing of operating theatres – this remains a priority for 2022/23. In 2021/22 the Trust performed ahead of expectation in this area by achieving overperformance of £0.6m on its elective recovery funding (ERF) in the first half of the year in particular.

At year end the Trust has reported a £14m surplus per the draft financial statements submitted in April 2022 however once the impact of accounting adjustments are removed the outturn position as reported to Board is a surplus position of £0.2m. As such the Trust has performed slightly ahead of the expectation of a breakeven position and under the Covid-19 funding regime has demonstrated that it has sufficient income to cover its expenditure in the financial year.

Performance, financial and non-financial, of a Trust is also reflected by the NHS Single Oversight Framework (SOF) segmentation. NHS England and NHS Improvement (NHSEI) have allocated trusts and ICSs to one of four 'segments. A segmentation decision indicates the scale and general nature of support needs, from no specific support needs (segment 1) to a requirement for mandated intensive support (segment 4). The Trust has been allocated to segment 2 which provides positive assurance of requiring a lower level of support. The segmentation decision includes factors such as governance arrangements, financial performance and quality of services and therefore confirms that the Trust have appropriate arrangements across these areas.

2022/23 Financial Plan

The Trust was required to submit, via the local health system, a draft financial plan by 17 March 22 and a final plan by 28 April 22. These deadlines were achieved and there was a good level of liaison observed with the ICS throughout the process to ensure that assumptions were aligned and plans submitted as required. The draft plan submitted proposed a deficit of £9.7m and the final submission a deficit position of £7.6m. This equates to 1.2% of planned turnover and as such is not considered to be a significant deficit position in relation to the size and operations of the Trust. A further iteration of the plan is now required by NHSEI from systems and providers and is due on the 20th June 2022. This is expected to include notification of additional inflation funding, which will further reduce the current MTW plan deficit, but the value of the inflation funding is not yet confirmed to systems. It is anticipated that there will also be a focus on all systems coming back into balance for the June submission.

Financial sustainability

The Trust is part of the Kent and Medway Integrated Care System (K&M ICS) and is the second largest Trust within the system based on income and expenditure for 2022/23. The Trust's deficit is 20% of the total £37m deficit position submitted by the system. This proportion is reflective of its proportion of income and expenditure at system level and therefore demonstrates that the Trust has produced a plan aligned to its position within the local health economy and has retained control of its deficit at planning stage.

At each iteration of the plan the Trust has clearly identified and estimated the risks faced in achieving the proposed position. An early draft of the plan proposed a breakeven position for 2022/23 however this included a high level of risk totaling £37.8m. The Trust has committed to de-risking the plan at each stage and at final submission, although a deficit of £7.6m has been proposed the risk to the plan has been substantially reduced to £15.8m.

Potential Risk/Benefit	Risk Adjusted Value Feb 22 Draft £m	Risk Adjusted Value April 22 Submission £m
CIP delivery 2022/23	5	5
CIP delivery 2021/22	7.5	7.5
ERF Funding	20	0
Additional CCG income	10	0
Net inflation pressure (additional 4%)	0	4.3
Energy prices	-2.4	0
Net inflation pressure	-1.3	0
Covid-19	-1	-1
Total net risk	37.8	15.8

Having reviewed the risk to the plan at each stage we can confirm there is appropriate consideration of risks including inflation, savings delivery and achievement of Elective Recovery Funding (ERF). At each stage of the planning process the Trust has also identified potential mitigations to the risks identified and at final submission stage these total £16.4m. Should the risks to the plan materialise in full, the Trust has sufficient contingency plans to mitigate these. The mitigations identified relate to non-recurrent income, reducing service development investments and releasing a contingency specifically set aside. The Trust recognise that although the mitigations are higher than the risks there would be an operational impact if for example service developments were reduced and as such work is ongoing to monitor, manage and develop additional plans to respond to risk throughout the year via the established risk management processes. All other assumptions in the plan have also been agreed as appropriate in line with the planning guidance.

Consideration has been given to the reserves the Trust holds as a contingency to support the deficit. The Trust undertakes monitoring of the cash position daily, report this monthly via the finance report and produces annual cashflow forecasts for the year ahead. Each confirms the Trust will hold £11.8m in cash at the start of the 2022/23 financial year which would be sufficient to cover the deficit position given the additional risks already have mitigations to support them. The Trust cashflow predicts that the Trust's cash balance will reduce to £5m by the end of 22/23. This would not be sustainable to support the Trust in the medium-term but the plan, mitigations and reserves of the Trust provide us with assurance that the arrangements developed in 2021/22 for the coming year are appropriate to support the Trust's operations in 2022/23.

Each iteration of the financial, workforce and activity plan has been presented to the Finance and Performance Committee, as well as the Board, and there is evidence of a comprehensive level of discussion at each meeting with specific attention drawn to the risks, savings and assumptions on elective recovery included within the plans. These are areas which are vital to the success of the plan and as such we are satisfied that a good level of engagement has been demonstrated throughout the process ensuring the plan is deliverable and robust in its assumptions.

Financial sustainability

Cost Improvement Plans

The Trust has a good track record of achieving planned savings based on pre-pandemic performance. In 2019/20, the last year before the Covid-19 funding regime and the last year when Cost Improvement Programme (CIP) plans were a sector wide requirement, the Trust delivered its £22.4m CIP target in full. For 2021/22, despite savings not being a national requirement, the Trust set an internal target of £3.7m of savings to be delivered in the financial year. The Trust achieved £2.6m at year end but the fact that the Trust remained committed to savings provides assurance the Trust is already well prepared for the process of developing savings required in 2022/23 plan and monitoring of savings performance has been retained at a high level throughout 2021/22.

The 2022/23 plan includes CIPs of £20m, as well as additional CIPs from 21/22 of £10m to ensure that the Trust can maximise any missed savings opportunities. This equates to 4.9% of planned expenditure and we are seeing CIP targets of between 3-6% across the sector within financial plans, as such the Trust is in line with expectation. At the planning stage, 40% of the total target remains unidentified. Having a high level of unidentified CIPs at the start of the year is often followed with under delivery of CIP plans by year end. It gives less time once schemes are identified to deliver the savings fully. The Trust's plan includes a risk of £7.5m in relation to CIPs for 2022/23 and £5m for 2021/22 and mitigations have already been identified which more than cover the total risks to the plan however the Trust should ensure it appropriately assessing schemes and coming up with a clear plan to show how these will be profiled over the year (recommendation A).

Financial plans, as reported to Board and the Finance and Performance Committee, are detailed and transparent in their information. Decision makers are provided with information to ensure they understand the total savings required including those that are identified and unidentified, the expected profile the savings are expected to occur over the year, the risk profile of the savings as well as confirming the types of savings across pay, no-pay and income. This ensures that decision makers have a comprehensive level of information available with which to challenge savings identification at each stage of planning. This is an area that has generated a good level of discussion and demonstrates the Trust's commitment to performance in this area.

Savings are monitored by the Finance team via the well-established CIP tracker. The tool has remained in place throughout the pandemic, is expected to remain in place for the 2022/23 financial year and has been an effective tool for several years. The decision makers of the Trust are able to understand performance of CIPs the monthly finance report, where the performance of CIPs against plan is included in the narrative and separately from the other budget items.

The reporting to Board and sub-committees on CIPs in 21/22 has been very high level, simply reporting the overall Trust level achievement against target. Given CIPs were not a national requirement the level of reporting is reflective of the environment in which the Trust have been operating. However, for 2022/23 savings are once again a requirement of the planning cycle, the Trust have included much larger target of £20m in the 2022/23 plan (compared to £3.7m for 21/22) and there is risk included in the plan in relation to savings. As such we would suggest that more detailed reporting of savings is included within the Board and sub-committee reports to monitor savings in line with the level of detail provided at planning stage.

Capital

'The Trust has delivered capital projects in excess of the 2021/22 capital plan. The Trust's capital plan initially agreed with the local health system for 2021/22 was £10.57m comprising net internal funding £8.9m, PFI lifecycle of £1.2m and donated assets of £0.4m. At year end the Trust has delivered a capital program of £26.6m and therefore has been able to extend its capital projects by £16m. This is due to additional schemes which have been approved, over and above the original plan, as a result of the additional funding gained. Funds have been made available as a result of additional system and national public dividend capital (PDC), Target Investment Fund (TIF) and system slippage where the Trust has been offered additional capital resource arising from overall capital slippage in the Kent and Medway ICS. The Trust has been able to extend its own capital programme for the benefit of the system, by using some system funding to develop the Barn theatre. The aim of this project is to create additional elective care capacity which will benefit the local health system. The Trust has also been able to bring forward schemes from 2022/23, on the basis of surrendering the equivalent funding to the system in 2022/23.

The Trust has prepared its five-year capital plan and have agreed this with the local health system and NHSEI. The Trust has identified internally available funds, national funding and its system level capital envelope to develop a capital programme for 2022/23 of £68m. The plan has prioritised funding for key projects for estates backlog, ICT renewal and equipment replacement. The largest individual project within the plan is the Barn Theatre expansion with a capital cost of £28m in 2022/23. The Trust have received confirmation of this being funded by national funding as opposed to the system allocation. The prioritisation of this limited capital resource is undertaken by the capital budget holders in collaboration with each division, taking account of business planning submissions, and agreed with the Executive Team. We have reviewed the capital plan alongside the Trust's revenue plan, corporate strategy and objectives and are satisfied that the capital plan is well aligned to each.

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.

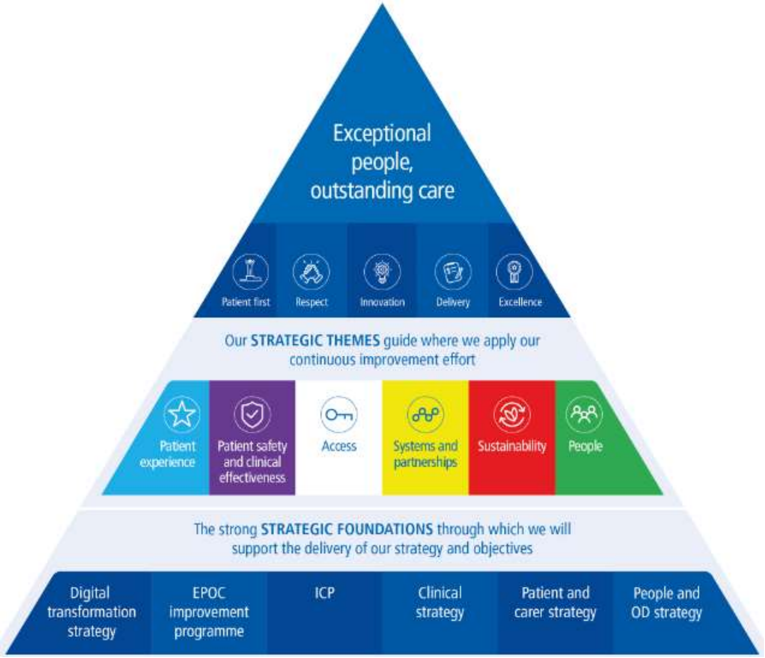
Overview

Governance is the system by which the organisation is controlled and monitored to ensure that decisions can be made effectively and the relevant people within the organisation held to account.

Our work in the prior year established that the Trust had a well established and well understood governance framework and overall arrangements are strong. Arrangements in terms of committee structure, reporting via those structures, policies and procedures and assurance processes have remained largely unchanged. Overall we have not identified any weaknesses in governance arrangements for 21/22. Despite some changes to risk management procedures, the Trust's governance arrangements remain robust, although we have identified some potential improvements that could be made in order to ensure the Trust is demonstrating best practice in this area.

Risk Management

An effective risk management system is one that has a clear method for identifying the key strategic risks to the Trust, separately from operational risks, and having a process for monitoring and reporting those to the decision makers of the organisation. In 21/22 the Trust implemented the first phase of the Strategy Deployment Review process (SDR). The process established the Trust's vision and linked to 6 strategic themes, which represent the short to medium term goals of the Trust, to this vision. Specific actions and projects have been developed which aim to achieve each theme and ultimately the vision of Exceptional People, Outstanding Care (EPOC). We have viewed evidence to suggest effective training has taken place in relation to this new process for Board, Executives and Senior Management of the Trust.



Risk management is a key element in how successfully the strategic themes can be achieved.

Governance

Strategic Risk Management

Traditionally in the NHS strategic risk management processes include the use of a Board Assurance Framework (BAF), however an active decision was made by the Trust after 2020/21 to transition to the SDR. Although this is an unconventional method of risk management it has been implemented successfully at Western Sussex NHS FT and the Trust liaised extensively with them prior to the process commencing to understand the challenges and advantages of the process.

The Trust have implemented a new Integrated Performance Report (IPR) as part of the process, which is built around the 6 strategic themes. It includes vision targets, breakthrough targets and non-SDR targets (required by NHS Guidelines) against which actual performance is monitored monthly. The targets demonstrate the actions required by the Trust to be able to meet its strategic goals, being off target signals that there is a risk to meeting the Trust strategy. Therefore, the updated IPR is the method by which the Trust have ensured that the strategic risks that would have been included in the BAF are monitored. We would suggest this could be clearer as there is no reference to risk in the IPR or the training materials provided to management and therefore it is unclear that this is a risk management tool (Recommendation B).

The IPR relies on metrics to convey whether risks are increasing or decreasing so by definition these metrics will be operational in nature. Importantly, via the SDR process, they are derived from the strategic goals of the Trust for the next 2-3 years via a documented process and overseen by the Board. The outputs from this process have been presented to the Board and will be reviewed and updated as necessary on an annual basis.

We are satisfied that there is distinction between operational and strategic risks and that this will be kept under review to ensure this remains robust. However, in order to improve the IPR and make the link between the metrics, targets and risks to the Trust consideration should be given to expanding the IPR to include narrative to explain the risk that they are assessing, otherwise the IPR is in danger of simply being a performance measurement tool with no clear link to risk (Recommendation B).

Managing strategic risks via the IPR responds to a recommendation raised in the prior year that the BAF was not monitored frequently enough, as monitoring of risks has increased from twice a year to monthly under the new methodology.

Under a traditional BAF we would expect 5 to 15 strategic risks for an acute Trust of Maidstone and Tunbridge Wells' size. The IPR has 6 strategic themes which each have a vision and breakthrough target metric to reflect risk. In total this is essentially 6 to 12 risks and therefore sits within that manageable range for monitoring.

As the Trust does not use a traditional BAF, or explicitly reference risks in the IPR, there is potential that the tool would not meet the minimum standards we would expect for content of a BAF or risk management tool. These include details of key controls and assurances, RAG rating, mapping to corporate objectives and allocating risks to a named accountable officer as a minimum. We have reviewed the IPR and are satisfied it includes all of the content we would expect despite being an unconventionally presented risk management tool.

Operational Risks

Unlike the strategic risk management process there have been fewer changes to the operational risk management process. Operational risks continue to be monitored via the Corporate Risk Register which is held in the Datix system , accessible by all divisions and managed by the Corporate Affairs Team.

Red rated risks are reported formally to Executive and the Audit and Governance Committee at each meeting. The Board have oversight of the risks via a summary report of the Audit & Governance Committee received at each meeting however, the Board do not receive the risk register itself or the red rated risk report. We recommend the Board receives a copy of the red rated risk report at least on an annual basis to ensure there is appropriate transparency and challenge at the top of the organisation (Recommendation C).

As with the strategic level risks, we reviewed the content of the Corporate Risk Register and the number of risks. We noted that the operational register did not include a named accountable officer and therefore it was unclear who was responsible for taking action in relation to each risk. This is not weakness in arrangements as the Division and Directorate are identified. We are also aware directorates use Datix and manage their operational risks and as such simply not naming an officer in the risk register does not hinder this process. Additionally, we note risks are not linked to a Trust strategic priority. This is something the Trust should consider doing to better connect the different elements of the risk management process (Recommendation D).

Governance

Budget Setting and Monitoring

For 20/21 and 21/22 the Trust, like the rest of the sector, has been funded to a breakeven position via block funding and top-ups received from central government to allow Trusts to focus on responding to the pandemic. However, the planning guidance for 22/23 was released in December 21 confirming that the sector would no longer be funded in the same way as the previous year. The key differences are significant reductions in Covid-19 funding included in the Trust's initial income allocations, no top up funding when not breaking even and a focus on elective recovery for which the Trust can receive additional Elective Recovery Funding (ERF) or return a portion of the funding based on whether activity is above or below the expected target of 104% of 19/20 levels.

The Trust's planning for 22/23 encompasses analysis of financial, workforce and activity plans. Draft plans were submitted to NHSEI in March 22 and the final submission in April 22. The Trust have two parallel processes in place for the business planning process for 2022/23. The first is a bottom-up approach, where the individual divisions develop their budget and share with finance for scrutiny, and the top-down approach where finance develop specific assumptions and include these in the budget once received from the divisions. Elements of this are consistent with prior years however improvements have been made to recognise additional risks associated with ongoing costs of Covid-19 and as such the Director of Finance now hosts challenge meetings with the divisions to respond to the additional challenge.

Within the budgeting process finance consider several scenarios, namely in relation to the level of Cost Improvement Programme (CIP) savings that may be achieved, and possible mitigations depending on the level of achievement in each case. This is effective in ensuring the assumptions in the plan are as realistic as possible. We are satisfied there is appropriate input into the budget setting process from Finance, Executive Directors, Clinicians and the divisional teams themselves and therefore ensures that the budget is realistic from an operational and strategic perspective.

The Trust is limited in the medium term forecasting it has been able to undertake as a result of the planning guidance only being released for a one year time frame by NHS England and NHS Improvement (NHSEI). The Trust has therefore complied with the guidance in producing its business plan for this period but will need to ensure it is able to react quickly once further guidance is released. We are aware the Trust has plans to revisit the medium term plan in early 2022/23 based on the current planning guidance. We would recommend that the Trust prioritise their medium term business plans as information emerges in year to ensure finance, activity and workforce plans remain robust and sustainable for the future. This is a similar situation across the sector, as such the Trust are not an outlier (Recommendation E).

Despite a change in the funding mechanism and the pressure of Covid-19 on operational performance the Trust's monitoring of operational and financial performance has remained sufficiently regular and effective throughout the pandemic. Reporting has been taken to the Finance and Performance Committee and the Board monthly. Committees and Board are well attended by Non-Executive Directors (NEDs) and Executive Directors, there is a good level of challenge demonstrated and the reports themselves are informative whilst not being overwhelming in their detail due to effective summaries provided. We expect that the current format of reporting will remain in place for 2022/23 and therefore would remain effective.

Stakeholder Engagement

Trust NEDs and Executive Directors have unfettered access to information from Board sub-committees via an online portal, they receive detailed presentations on each report and also receive a summary of important issues each meeting via the Chair and Chief Executive reports. Our review of various papers and minutes of the Board and sub-committees demonstrates good engagement by the Board on a range of topics and is consistent with the behaviour observed in the prior year .

One of the Trust's goals and aims is to increase the opportunities available for patient involvement, through interaction and gathering of views and feedback, which can then be utilised to improve services and pathways of care. We note specific examples in two key projects/service changes for Gastroenterology and Cardiography service reconfigurations where the Trust has included public engagement on the projects themselves, the approach on timelines and why those approaches are deemed suitable. The Trust also engaged with stakeholders (excluding the public) on the engagement plan itself and then engaged with public following internal approval. Engagement on the service changes included face to face discussions, pop-up stands at stakeholder events, surveys amongst others. The Trust ensured they haven't just included stakeholders in the K&M area but also other geographies, such as East Sussex Hospitals Trust, as they are impacted by the decision too.

Governance

Regulation and Legislation

Our work has not identified any issues in relation to non-compliance with laws and regulations to which the Trust must adhere. The Trust is regulated by the CQC and were last inspected in 2017 where they were rated requires improvement and no follow up inspections have taken place since. Arrangements at the Trust continue to be in place to respond to the CQC findings and the evidence to date shows a positive response. The programme to respond to the findings is being led by appropriate key officers across the Trust - the Chief Nurse and Director of Quality Governance, supported by a Project Management Officer (PMO) who are led by the Director of Finance (DoF). This demonstrates a sufficiently senior, joined up approach with clinical and quality input and represents robust arrangements as a result. The Trust's ultimate aim is to be rated as outstanding and the medium term programme reflects this. The Executive Team meeting and Quality Improvement (QI) Committee receive progress reports regularly on progress against the CQC actions.

In December 2021 David Fuller was found guilty of multiple offences which took place over several years within both the Kent and Sussex Hospital and Tunbridge Wells Hospital mortuaries. The incident relates to a discrete area of the Trust and therefore the potential for there to be more pervasive problems in relation to the incident are unlikely. There is evidence the Trust acted in timely manner when it became aware of the incident. Arrangements to respond included immediate upgrades to security, commissioning an independent investigation to ensure they could learn from the incident. There has also been an appropriate tone from the top of the organisation with the Chief Executive leading communication with the media, families, police and the Board, the Board have been kept fully informed and support has been offered to all families and staff impacted. The improvements made have been wide ranging and includes several policies and procedures updated in relation to HR processes, mortuary guidelines and security. The independent inquiry, led by Sir Jonathan Michael is ongoing and in future years we'll assess how any action plan arising from the review is implemented. As such there is no immediate impact of the incident on our 2021/22 value for money conclusion.

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.

Overview

Ensuring the Trust achieves economy, effectiveness and efficiency involves ensuring arrangements are in place to use the available resources to achieve the overall objectives (effectiveness), achieving the maximum service levels with the available resources (efficiency) and balancing revenue and costs effectively in the process (economy).

Strong arrangements and minimal improvements were noted in the prior year and in updating our knowledge for 21/22 we have not noted any significant changes. The one prior year recommendation has been responded to and we have noted developments and improvements across arrangements. Overall we have not identified any weaknesses in economy, effectiveness and efficiency arrangements for 21/22 however we have identified one area for improvement as noted in our reporting.

Performance Reporting

There have been limited changes to the how financial and operational performance are reported within the Trust compared to 20/21. The Trust reports both monthly via the Integrated Performance Report (IPR) and the Finance Report to the Board and Finance and Performance Committee. There have been changes to the format of IPR, as noted in the Governance work, however the information and range of Key Performance Indicators (KPIs) is considered to reflect the Trusts operations and objectives appropriately. The IPR format uses Statistical Process Control (SPC) charts to depict how the Trust is performing against its KPI targets a process in place since June 2020. This is an established method across the sector, is now well established and embedded at the Trust and is explained clearly in the IPR.

In the process of updating the IPR the Trust have responded to our recommendation from the prior year to consider a way of bringing to the Board's attention, on a regular basis, the data quality of performance metrics reported to the Board, and its sub-committees. Arrangements in place include monthly meetings between the Deputy Director of Finance, contracting and divisions to scrutinize data before reporting, consistency checks on the IPR data each month by finance, an updated Information Lifecycle Management Policy and Procedure and a Data Quality Steering Group led by the Chief Finance Officer responsible for assuring data quality across the organization. This group feeds back on issues and improvements to the Board and sub-committees as required.

Via our own internal benchmarking tool, we investigated several areas where the Trust was performing below the national average based on publicly available data. In many cases the published data was outdated due to publishing timetables within the NHS, but using the Trusts own performance reporting we were able to conclude that performance had improved and/or that actions being taken to respond to the performance were appropriate. The areas were average revenue per activity unit, RTT (admitted and non-admitted), outpatient FFT and incidents resulting in severe harm or death.

Agency spend was flagged as an are of interest as based on March 2020 when the Trust was performing at 6.66% compared to a national average of 4%. The Trust report on agency usage, as well as agency spend within the IPR, and both have been consistently above target in the year. There is sufficiently regular reporting to Board and the People, Organisation and Development committee on performance across several workforce metrics including those related to agency staffing over the course of the year. Although regular attention is brought to the performance across these metrics there is limited information included in the IPR as to what actions the Trust is specifically taking to positively impact agency usage and spend. From discussion and review of specific reports throughout the year we have confirmed that the response has been comprehensive and consistent throughout the year. Actions have included international recruitment, employing a lead recruitment and retention matron, deep dives into agency and retention and several recruitment campaigns however these actions are not transparent within the IPR.

Improving economy, efficiency and effectiveness

Given agency spend is likely to be an ongoing cost pressure in 2022/23 and will not be funded by Covid-19 funding we would expect that performance reporting would include detailed actions each time the metrics are presented to Board, so that they can be monitored more closely by Board (Recommendation F). We note that complementary metrics such as turnover, safe staffing, vacancy rate and sickness rate are included as KPIs so the Board is able to see the full picture in terms of workforce issues and these do include several actions being taken. A partial cause of the above target performance on agency spend due to a correcting journal in year of which Board have been informed. We also note that the Trust have made further updates to the IPR in 2022/23 M1 which includes more detailed action responses to the agency metrics via a counter measure report under the strategic theme of sustainability.

Within the Trust's IPR it includes reporting on national access standards for care and these include percentage of patients waiting less than 4 hours from arrival to treatment, percentage of patients waiting less than 18 weeks for treatment in acute setting since GP referral and the percentage of cancer patients treated within two weeks of diagnosis. Like many Trusts, a backlog of patient awaiting elective treatment has resulted from theatres closing and social distancing measures during the pandemic and attendances to A&E have been higher than prior to pandemic. However despite the challenges the Trust's processes to respond to cancer patients in particular have remained robust and the trust has continued to perform in line with internal and national targets. Our own benchmarking has not highlighted A&E waiting time performance as an issue which suggests that although the performance is behind national and internal targets and has seen a decline since prior year the challenges are being felt across the sector, with the Trust performing comparatively well. In relation to Referral to treatment performance (RTT 18 weeks) challenging performance was identified in 2020/21 however the Trust actions have ensured there is improvement in the right direction. Actions have included stretching activity targets for directorates, targeted action plans developed for directorates with high Did Not Attend (DNA) rates and ongoing improvements to the booking process for operations and patient flow processes. The Trust has specifically focused on elective recovery targeting those patients who have had the longest waits for treatment, this has been successful and in the year the Trust was able to clear its 52 week wait backlog and offer support to a neighbouring Trust with their wait list. As such the arrangements are deemed to be effective and the 18 week target an expected focus for 2022/23 given the success in tackling longer waiting patients.

Partnership Working

The Trust is increasingly working with partners in the local health system and the future policy direction of the NHS sees the increased system working as a priority.

Representatives of the Trust engage in regular informal ICS meetings at Chief Executive, Director and Deputy Director of Finance and Chief Operating Officer Level as well as more formalized Provider Oversight Meetings (POMs). All of these forums have effectively covered the full range of system priorities and risks covering quality, operational, finance, workforce. System priorities and developments are fed back to Board sub-committees by Trust representatives and reported to Board via the Chief exec report and the sub-committee update reports as and when required. The frequency and detail of the reporting and discussion is reflective of the level of collaboration currently in place and we expect this may increase in the next year as the level of system collaboration increases.

In the prior year we noted that there were no partnership metrics included in the Trust's performance reports and expected that as partnership working develops, the Board would need appropriate information to both understand performance and to feed back potential improvements. In 2021/22 the Trust has updated its IPR and this is structured around strategic themes, one of which is the system. The metrics are currently limited and focus around non-elective care however this shows a move in the right direction towards transparency with the system. Through the A3 process and Board review themes and KPIs will be reviewed at least annually, as such there is scope for the IPR to expand in this area as collaboration with the ICS increases. This review will be important to ensure performance reporting remains relevant to the environment the Trust is operating in and the Trust may need to consider increasing the frequency of review while the new IPR is still in a development phase as well as the ICS.

Procurement and Projects

We would expect key policies to be updated every 3-5 years to ensure they remain relevant to the Trust's operations and regulatory environment. Part of the governance arrangements set out in the original Strategy for 2016-2019 included an annual review to be taken to the Finance & Performance Committee, which has occurred as expected. A full Procurement Strategy Review took place in January 2021 which confirmed the Procurement function is fully embedded, aligned with the Trust's objectives and the review also provided the basis of the Trust's roadmap for the next three years. This strategy has been successfully updated for changes in the national, regional and local landscape since the original strategy was formulated and highlights areas that require adapting or further development to ensure that it remains relevant. The Trust strategy focusses on four key workstreams that the Trust has created to focus on the four key areas needed to respond to national, local and regional priorities. The workstreams are Information Technology, Staffing, Data Standardisation and Enablers.

Improving economy, efficiency and effectiveness

The Procurement Team's involvement in all directorates has become more prevalent, with stronger relationships and a clearer understanding of their function within the Trust and therefore demonstrates that procurement is a trust wide priority. The Team structure themselves around 4 key areas of procurement and assist teams based on their specialty - Commercial Support, Systems, Operational, Materials Management. The specialties are well aligned to the Trusts priorities and operations.

Since its inception four years ago, this team has delivered additional cash-releasing savings year on year of between £3m & £4m. In the 2019/20 financial year the team delivered £3.9m of in-year savings however we are aware that procurement exercises have been less prevalent in the 20/21 and 21/22 years due to Covid-19 pressures.

Monitoring of progress and success of procurement projects is the responsibility of the Procurement team, and the Contract Management team for specific contracts. Performance is also indirectly monitored through the Board sub-committees who receive ad-hoc reports on performance of services (via the Finance and Performance Committee) and quality (via the Quality Committee). The Quality Committee receives deep dive reviews into services and regular governance reports, where these services have a service contractor element their quality is part of this review. These sub-committees are well attended by Executive Directors and NEDs and therefore both are able to challenge the effectiveness of the teams actions.

For significant projects the Trust has a well established business case process. Business cases are monitored from initiation to completion using a tracker, this effectively highlights to finance, the procurement team and the relevant divisions where there are delays in the process so action can be taken. Business cases are presented to the Finance and Performance Committee for review with clear options for members to consider and challenge, highlighting costs, risks, opportunities and benefits of each option under review. Board, or relevant committee depending size and delegated authority for the project, have the ultimate responsibility for approval of a case. Several business cases have been discussed and approved via these channels in the year, we reviewed the cases for the building of the new Barn Theatre and Cardio and Gastro Service Reconfigurations in detail. These align to the operational aspect of the procurement strategy. In particular we note the fact that the Barn theatre project is aimed at increasing elective orthopedic capacity for the local health system, not just MTW, and as such is not only well aligned to the procurement strategy but the system strategic theme and the wider priorities of the sector for 22/23 onwards.

Improvement recommendations

	Financial sustainability	Governance
	Recommendation A	Recommendation B
Auditor judgement	The Trust has a 2022/23 CIP plan of £20m however 40% of this is unidentified. The Trust does have a track record of delivering saving plans but having a large unidentified balance at start of the year gives a clearly means there is a greater risk to the achievement of the total plan.	The IPR is the key mechanism for managing risk at the Trust which impact whether its strategic objectives can be achieved. Lack of clarity between the metrics in the IPR and the risks they manage may lead to ineffective management of those risks. As part of the Strategy Deployment Review process the IPR has been updated to be used as the Trust's strategic risk management tool. The targets included within the IPR demonstrate the actions required by the Trust to be able to meet its strategic goals, being off target signals that there is a risk to meeting the Trust strategy. However, the IPR does not make reference to risk or include narrative to link the metrics to risk they are addressing and as such the tool still predominantly acts as a performance management tool rather than a risk management tool. Equally the training materials Trust staff have received do not clarify how the tool is being used to manage risk.
Summary recommendation	The Trust will need to ensure it has a clear plan for when unidentified CIP schemes will be identified during the year and then a process for monitoring achievement of these and other agreed schemes. This needs to include appropriate levels of reporting to the Board and the Finance and Performance Committee. Covid-19 funding over the last two years has meant saving plan monitoring processes and reporting have not been required in the sector (although we note the Trust did have a small internal savings plan it reported against to a high level) therefore the Trust will need to ensure previously robust processes are re-introduced.	The new Integrated Performance Report (IPR) should be updated to clarify the strategic risks the Trust is facing, link the existing metrics to those risks and explain how they how they are being managed.
Management comment	Management agree with the recommendation. The Trust is prioritising the CIP identification process with the Divisions. From Month 3 2022/23 the full CIP reporting pack will be re-introduced	Management agree with the recommendation. Each Strategic Theme will identify risks and mitigations as part of the process for setting the objectives for the year. When a Counter Measure Summary (CMS) is required to explain performance at variance to plan, these risks and mitigations will be reviewed and updated. Sections on Risk and Mitigations will therefore be added to the Strategic A3 process and CMS process

Improvement recommendations

	Governance	Governance
	Recommendation C	Recommendation D
Auditor judgement	The Board and its sub-committees are the key decision making forums of the Trust and therefore to make effective decisions need to have an understanding of all of the risks that the Trust faces. Only the red rated risks from the Corporate Risk Register are reported formally to Executive and the Audit and Governance Committee at each meeting. The Board have oversight of the risks via a summary report of the Audit & Governance Committee received at each meeting however the Board do not receive the risk register itself or the red rated risk report.	The operational risks within the Corporate Risk Register are not linked to the objectives of the Trust and therefore it is not clear how the risks are impacting the Trust's strategy.
Summary recommendation	The Board should be presented with the red rated risk report at some point during the year. Annually may be sufficient but the Trust may determine a greater frequency is appropriate.	The Corporate Risk Register should be updated to ensure it is linked to the Trust's objectives.
Management comment	Management agree with the recommendation. The red risks will be presented to the Trust Board at least annually each year.	Management agree with the recommendation. The Trust will link each of the corporate risk register entries to the strategic themes

Improvement recommendations

	Governance	Improving economy, efficiency and effectiveness
	Recommendation E	Recommendation F
Auditor judgement	The Trust is limited in the medium term forecasting it has been able to undertake as a result of the planning guidance only being released for a one year time frame by NHS England and NHS Improvement (NHSEI). The Trust has therefore complied with the guidance in producing its business plan for this period but will need to ensure it is able to react quickly once further guidance is released. We are aware the Trust has plans to revisit the medium term plan in early 2022/23 based on the current planning guidance. We would recommend that the Trust prioritise their medium term business plans as information emerges in year to ensure finance, activity and workforce plans remain robust and sustainable for the future. This is a similar situation across the sector, as such the Trust are not an outlier	Agency expenditure has been a challenge at the Trust since before the pandemic. Internally the Trust reports on its agency usage and on the costs this incurs. Agency usage has been consistently above Trust's internal target of 90 whole time equivalent staff (WTE) in the year and monthly agency spend has been above target of £1.333m per month consistently as a result.
Summary recommendation	The Trust should prioritise producing their medium term business plans in early 22/23 and update as information emerges to reduce uncertainties	The Trust include target and performance of both agency staff usage and expenditure within their Integrated Performance Report however the report includes limited evidence of actions taken specifically to tackle agency usage and spend. Actions are included in relation to complimentary workforce metrics elsewhere in the Trust reporting, however given the expected challenge on agency spend the Trust should consider increasing transparency in relation to the arrangements they have in place on agency metrics specifically.
Management comment	Management agree with the recommendation. The Trust will prioritise producing its medium term business plans in 2022/23, aligned to the expected ICS system return. A review of the draft medium term plan is scheduled for the July Finance and Performance Committee meeting	Management agree with the recommendation. The Trust has already instituted this in Month 1 reporting 2022/23 with its specific counter-measure reporting on agency spend.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Year raised	Progress to date	Addressed?	Further action?
Governance – present the Board Assurance Framework to the Board more regularly	Improvement	2020/21	Completed. The Trust have redesigned their risk management process via the Strategy deployment review and as result risk management is undertaken via the Integrated Performance Report which is presented to Board and the Finance and Performance Committee on a Monthly basis.	Yes	No
Improving the 3E's – consider a way of bringing to the Board's attention, on a recurring timeline, the data quality of performance metrics reported to the Board and its sub-commitees	Improvement	2020/21	Arrangements in place include monthly meetings between the Deputy Director of Finance, contracting and divisions to scrutinize data before reporting, consistency checks on the IPR data each month by finance, an updated Information Lifecycle Management Policy and Procedure and a Data Quality Steering Group led by the Chief Finance Officer responsible for assuring data quality across the organization. This group feeds back on issues and improvements to the Board and sub-committees as required.	Yes	No
Financial Sustainability – in the reporting of the capital programme to the oversight committee, include at a scheme level, a risk assessment of whether the scheme will be delivered within the year.	Improvement	2020/21	Section 3c of the monthly finance report which is reviewed by Board, Finance and Performance Committee and the Executive includes a RAG rating for each scheme. All schemes for 2021/22 are green rated as the Trust delivered schemes over and above plan.	Yes	No

Follow-up of previous recommendations

Recommendation	Type of recommendation	Year raised	Progress to date	Addressed?	Further action?
Financial Sustainability – Management should take advantage of the slightly longer lead in time to re-energise its planning of a programme of savings that can be delivered recurrently	Improvement	2020/21	The Trust have included £20m of savings within the 2022/23 financial plan. Currently 60% of those individual savings schemes have been identified with work ongoing to identify the remaining requirement. Of the savings target 25% are expected to be delivered recurrently and therefore the Trust continues to predominantly rely on non-recurrent sources of saving however this demonstrates some progress has been made in relation to this recommendation. This is reflective of the sector wide challenging financial environment for 2022/23.	Partially	Yes – see recommendation A which will be followed up in next year's VFM work
Financial Sustainability – consider a programme of presentations to the Finance and Performance Committee by clinical directorates of their service improvement opportunities.	Improvement	2020/21	We have identified limited evidence of specific presentations within the committee papers. The purpose of the recommendation was to provides greater awareness to the committee of efficiency plans and improve oversight. We do still believe this would be of benefit however we would suggest that simply providing additional service level monitoring of savings for 2022/23 would fulfil the aim of greater awareness, this is included in Recommendation G.	No	Yes – see recommendation A which will be followed up in next year's VFM work

Opinion on the financial statements

Audit opinion on the financial statements

We issued an unqualified opinion on the financial statements ahead of the national deadline of 22 June 2022

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 accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

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 - 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'.	No	N/A
Improvements	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	Included in relevant sections

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