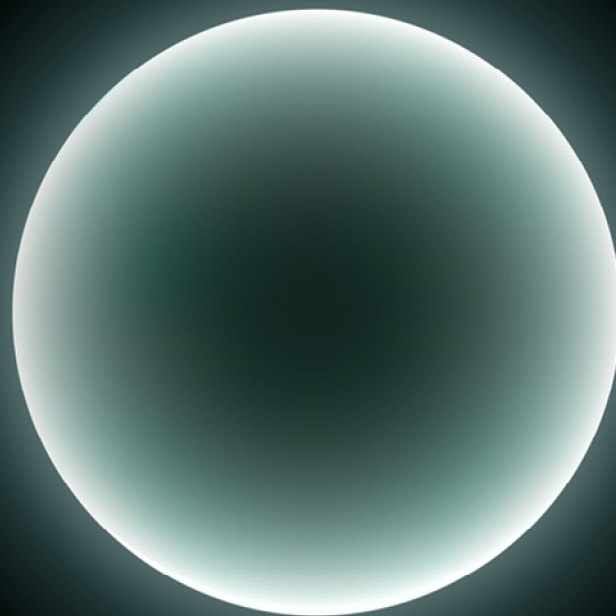


**Deloitte.**

**NHS**

**Wye Valley**  
NHS Trust



# Wye Valley NHS Trust

**Auditor's Annual Report 2023/24**

**11 September 2024**

# Key Messages

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## Audit opinion on the financial statements

We issued an unqualified opinion on the Trust's financial statements on 27 June 2024.

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## The Trust's arrangements to secure Value for Money

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### Significant weaknesses in the Trust's arrangements

On 21 June 2024 we reported to the Trust significant weaknesses in the Trust's governance arrangements and arrangements to secure financial sustainability. The significant weaknesses reported were related to the Trust's underlying deficit, CPIP delivery, NOF rating and CQC ratings. Our recommendations for improvement are set out on pages 15-19 and 38-39.

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## Commentary on the Trust's arrangements

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### Financial Sustainability *How the body plans and manages its resources to ensure it can continue to deliver its services*

The Trust has historically faced significant financial challenge and not met its statutory break-even duty, reporting deficits from 2015/16 until 2020/21. The Trust benefitted from being fully funded for the financial impacts of Covid-19 in previous years and the Trust's longstanding underlying deficit, reporting an in year adjusted surplus in 2020/21 and 2021/22. However, the Trust reported deficits in 2022/23 and in 2023/24.

The Trust reported an adjusted deficit position of £13m at 31 March 2024. The Trust had net assets of £127.2m (31 March 2023: £121.9m), net current assets of £16.8m (31 March 2023: £10.2m), and a cash position of £26.2m (31 March 2023: £35m).

**The Trust continues to be in breach of its statutory duty to achieve a cumulative break-even position, with a £13m deficit achieved in 23/24 resulting in a cumulative deficit of £156m at 31 March 2024. We have therefore, as required under the NHS Act, issued a S30 referral to the Secretary of State in this regard.**

The Trust has historically found delivery of recurrent CPIPs challenging and this will become increasingly challenging going forward within a financially constrained environment.

The Trust was forecast to deliver savings of £8.8m against the £15.8m efficiency savings target, with the majority expected to be on a recurrent basis. The actual savings at P12 were £10.4m, a shortfall of £5.4m compared to plan.

**In 2022/23 we assessed the Trusts arrangements in place and concluded that this was not a significant weakness in arrangements. We set out further commentary in our Auditors Annual Report and noted this as an area of focus for the Trust where there continued to be a need for robust and urgent action to ensure risks to the Trust's financial sustainability going into 2023/24 were addressed through recurrent solutions. However, as the Trust remains behind plan in relation to their CPIP savings, we have noted this as a significant weakness in the current year.**

# Key Messages

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## Commentary on the Trust's arrangements

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### Governance

*How the body ensures that it makes informed decisions and properly manages its risks*

The Trust's most recent full CQC inspection was published in early 2020 and rated the Trust overall as 'requires improvement'. The report highlighted a number of improvements from the previous inspection which took place in 2018, a 'good' overall rating was given to urgent and emergency services, an overall improvement since the previous inspection.

The Care Quality Commission (CQC) continued to monitor services under its Transitional Monitoring Arrangements over financial years 2022/23 and 2023/24, with an inspection of maternity services at Wye Valley NHS Trust in June 2023. The inspection was part of the national inspection arrangements for maternity services, and the Trust was rated as 'good' for this service, with the Well Led domain rated as 'good' and the safety domain rated as 'requires improvement'. In December 2023, an unannounced CQC inspection was performed on the emergency department of the County Hospital. The final report was published in February 2024, with a 'requires improvement' rating, and the safety of the service saw its rating decrease from 'requires improvement' to 'inadequate'. The report noted four 'must do' actions, and five 'should do' actions.

We have evidenced the Trust's action plans in relation to the two most recent inspections of maternity services and the emergency department. Each of these action plans are very detailed and highlight that almost all actions are either complete or in progress at the year end.

**Whilst the Trust has shown commitment in addressing CQC actions, and is progressing in implementing them, we have raised a significant weakness in 2023/24. The Trust saw a decrease in the rating of its emergency department, with its action plan presented to the audit committee very late in the financial year, due to the timing of the report's publication. The Trust should continue to monitor and review actions taken to ensure the desired outcomes are being achieved and become embedded.**

We identified a risk of significant weakness noting that NHSI has assessed the Trust as rated 3 against the NHS Oversight Framework (NOF), which indicates 'significant support needs against one or more of the five national oversight themes and in actual or suspected breach of the licence'. Contributing factors to this rating include challenges across areas including: the 62+ day backlog; 4-hour A&E performance and 12-hour decision to admit performance and the significant deficit position that the Trust faces. Certain workstreams saw deterioration in rating, which included issues in relation to workforce and bed occupancy. **We have raised a significant weakness in relation to this in 2023/24.**

# Key Messages

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## Commentary on the Trust's arrangements

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### Improving economy, efficiency and effectiveness

*How the body uses information about its costs and performance to improve the way it manages and delivers its services*

The Trust is part of the Herefordshire and Worcestershire Integrated Care System, for which an integrated care strategy has been developed and was finalised in April 2023.

The Trust is also part of a wider 'Foundation Group' with South Warwickshire NHS Foundation Trust (SWFT) and George Eliot Hospital (GEH). This structure sees each Trust operate independently and maintain its identity but provides a platform for collaboration and identifying solutions to shared challenges. In early 2023/24 the Foundation Group approved Worcestershire Acute Hospitals NHS Trust to join the Foundation Group as a full member.

The Foundation Group model has brought about a number of benefits for each Trust. The procurement of goods, systems and services can be done more competitively through the Foundation Group's combined size and knowledge and experience can be shared seamlessly. Important measures of quality such as NHS Staff Survey results illustrate that this partnership and pooling of resources is delivering improvements in acute and community-based patient care.

The Trust is also a member of the One Herefordshire Partnership (1H).

Members of 1H include, Herefordshire General Practice representatives, Herefordshire Council, Wye Valley NHS Trust and Hereford and Worcestershire Health and Care NHS Trust.

The One Herefordshire approach is founded on the recognition that Herefordshire's health and care organisations could only find solutions to the strategic issues they face collectively. The Covid outbreak galvanised this arrangement significantly, heralding a much more agile, permissive approach underpinned by clinician and practitioner leadership. This approach was formalised in the creation of the partnership and its associated governance structure in June 2021.

**We concluded that there are no significant weakness in the Trust's arrangements in this area.**

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# Purpose of this report

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Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Wye Valley NHS Trust ("the Trust") for the year ended 31 March 2024.

This report is intended to bring together the results of our work over the year at the Trust, including commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). This report fulfils the requirements of the Accounts and Audit Regulations for an Annual Audit Letter.

In preparing this report, we have followed the National Audit Office's ("NAO") 2020 Code of Audit Practice and its supporting Auditor Guidance Note ("AGN") 03 Value for Money, and AGN 07 Auditor Reporting. These are available from the NAO website. The 2024 Code of Audit Practice will apply for 2024/25 onwards.

A key element of this report is our commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Trust has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Trust has in place, nor does it provide positive assurance that the Trust is delivering or represents value for money.

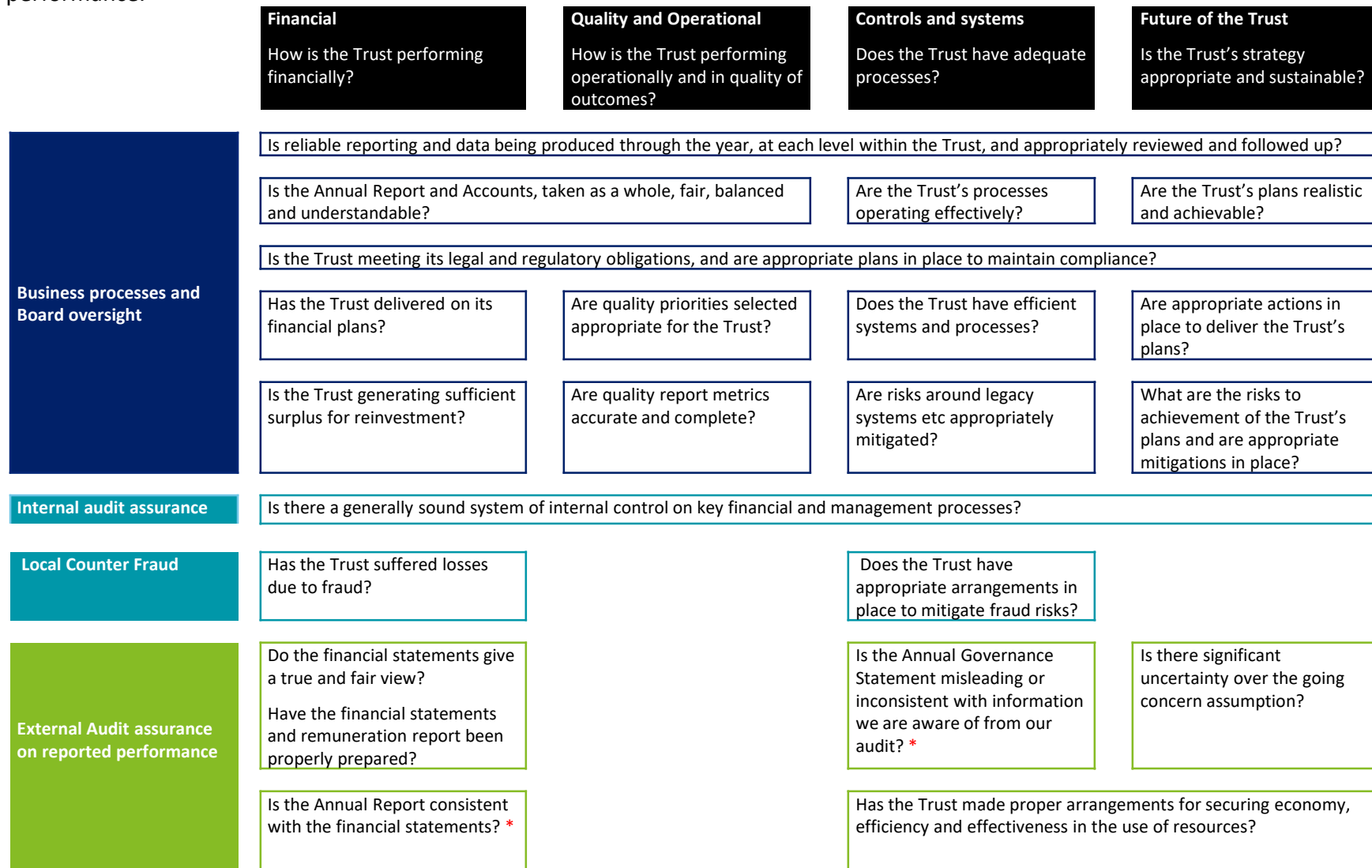
Where we identify recommendations, we indicate whether these are:

- Recommendations in respect of significant weaknesses in the Trust's VfM arrangements, which we are required to make in accordance with AGN 03 where we identify a significant weakness, or.
- Other recommendations, which we have indicated as "Deloitte Insights" (and which are summarised in Appendix 1).

The significant weaknesses in the Trust's VfM arrangements and related recommendations are set out on pages 15-19 and 38-39.

# Assurance sources for the Trust

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Trust (in the green rows) and how this fits with some of the other assurances available over the Trust's position and performance.



\* The scope of external audit in this area is "negative assurance" of reporting by exception of issues identified.

# Opinion on the financial statements

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## **We provide an independent opinion whether the Trust's financial statements:**

- Give a true and fair view of the financial position of the Trust at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by the Secretary of State with the consent of HM Treasury as relevant to the National Health Service in England.

The full opinion and certificate are included in the Trust's Annual Report and Accounts, which can be obtained from the Trust's website.

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We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We are independent of the Trust in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

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**Audit opinion on the financial statements:** We issued an unqualified opinion on the Trust's financial statements on 27 June 2024. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.

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**Remuneration and Staff Report:** We reported that the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the National Health Service Act 2006.

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**Annual Governance Statement:** We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by NHS England.

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**Annual Report:** We reported that the information given in the Performance Report, and Accountability Report for the year ended 31 March 2024 is consistent with the financial statements.

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**Reports in the public interest and reports to the Secretary of State and NHS England:** In line with reporting requirements, we have made a referral to the Secretary of State relating to the Trust's breach of the break-even duty, under the National Health Service Act 2006.

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**Reporting to the group auditor:** In line with the group audit instructions issued by the NAO, we reported on 3 July 2024 that the Trust's consolidation schedules that feed into the Consolidated NHS Provider Account and Department of Health and Social Care's group accounts were consistent with the audited financial statements.

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**Audit Certificate** We certified completion of the audit on 8 July 2024, following completion of our responsibilities in respect of the audit for the year ended 31 March 2024.

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# Our financial statement audit approach

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## **An overview of the scope of the audit**

Our audit was scoped by obtaining an understanding of the Trust and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

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## **Materiality**

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Trust to be £7.2m, on the basis of 2% of revenue.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300k as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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## **Procedures for auditing the Trust's financial statements**

Our audit of the Trust's financial statements included:

- developing an understanding of the Trust, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the Trust's financial statements;
- interviewing members of the Trust's management team and reviewing documentation to test the design and implementation of the Trust's internal controls in certain key areas relevant to the financial statements; and
- performing sample tests on balances in the Trust's financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy and completeness of those balances.

Data analytic techniques were used to identify items of audit interest and in journal testing, using our Spotlight data analytics platform.

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## **Approach to audit risks**

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Trust's Audit Committee setting out what we considered to be the significant audit risks for the Trust, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks on the next page.

We have made recommendations in our Audit Committee reporting for improvement in the Trust's policies, procedures and internal controls based on observations from our work. However, we do not consider these recommendations to reflect significant weaknesses in the Trust's VfM arrangements.

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# Financial statement audit significant risks

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## Accounting for capital expenditure

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<b>Risk identified</b>	<p>The Trust has an extensive capital programme with £28m (2022/23: £11.8m) of additions to property, plant and equipment for the year.</p> <p>As detailed in our Audit Plan, accounting for capital expenditure can involve significant judgements. Whether expenditure is capitalised, and the period it is recognised in, can significantly impact against the budgetary control totals the Trust is assessed against by NHS England.</p> <p>The increased level of expenditure in the current year, and the annual cut-off of capital budgets and requirements of PDC funding increase the risk of amounts being incorrectly capitalised, or of incorrect recognition in the current period. This has been identified as a significant risk due to fraud in light of these factors.</p>
<b>Deloitte response</b>	<ul style="list-style-type: none"><li>• We have reviewed the Trust's capital plans and have not identified any additional risks.</li><li>• We have considered the design and implementation of controls around the capitalisation of costs.</li><li>• We have tested spending on a sample basis to confirm that it complies with the relevant accounting requirements.</li></ul>
<b>Key observations</b>	<p><i>No issues were identified in relation to capital expenditure recorded. However, we have raised a control recommendation related to the capitalisation of costs within our ISA 260 report.</i></p>

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# Financial statement audit significant risks (continued)

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## Management override of controls

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**Risk identified** In accordance with ISA (UK) 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Trust's controls for specific transactions.

The key judgements in the financial statements are those which we have selected to be the significant audit risks – capital expenditure. This is inherently the area in which management has the potential to use their judgement to influence the financial statements.

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### Deloitte response

We considered the overall control environment and 'tone at the top'.

#### Manipulation of accounting estimates

- We tested the design and implementation of controls in relation to accounting estimates.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud and performed testing on key accounting estimates.

#### Manipulation of journal entries

- We tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used Spotlight data analytics tools to select journals for testing with characteristics indicative of potential manipulation of reporting. We traced the journals to supporting documentation and evaluated the accounting rationale for the posting. We evaluated individually and in aggregate whether the journals tested were indicative of fraud or bias.

#### Accounting for significant or unusual transactions

- We considered whether any transactions identified in the year required specific consideration and did not identify any requiring additional procedures to address this key audit matter.
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### Key observations

*We have not identified any significant bias in the key judgements made by management.*

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# Financial statement audit areas of focus

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## Application of IFRS 16 to the measurement of PFI liabilities

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<b>Issue</b>	<p>IFRS 16 was effective for NHS bodies from 1 April 2022. For 2022/23, no changes were made to accounting for PFI arrangements, while HM Treasury worked through its approach to replacing elements of PFI accounting which reflected IAS 17 to align with IFRS 16. Public sector bodies were required to implement these changes from 1 April 2023. As PFI assets are already recognised on-balance sheet, and are held at valuation, the impact of the changes is only upon the lease liability. The impact of the changes on the Trust are:</p> <ul style="list-style-type: none"><li>• Increase opening PFI liabilities by £33.7m from £30.2m to £63.9m</li><li>• Increase the current year income statement charge by £1.2m</li><li>• Increase year-end PFI liabilities by £34.9m from £26.1m to £61m</li><li>• Reduce the current year PDC dividend expense by £1.2m, due to lower net assets</li></ul> <p>The calculation of performance against the control total has been adjusted so that it excludes the impact of the income statement changes, so that the changes to PFI accounting have no impact on the control total.</p> <p>The principal change leading to these movements is to how index changes (in particular inflation) are treated. Historically, increases in payments due to inflation were recognised as an expense each year, rather than being reflected in the PFI liability. Under the revised approach, each year the liability is remeasured using the increased level of payments for inflation experienced to date (though not projecting future inflation). Due to the size and length of PFI contracts, this has a significant impact on the liability recorded. The net impact of the changes in PFI liabilities on the 1 April 2023 balance ranged from 36% to 112% of the 31 March 2023 balance for entities we audit with PFI schemes.</p>
<b>Deloitte response</b>	<p><i>We requested from management an accounting paper on the introduction of IFRS 16 for PFI, including the approach taken to modelling the change, the controls over the changes to the Trust's PFI model, and any judgements identified during the process. We have tested the accuracy of input of historic data into the new model, agreed key current year inputs to supporting documentation, and challenged whether there are any inputs that should be updated for other experience changes. We have reviewed the disclosures made against accounting requirements and for clarity of explanation of the changes.</i></p>

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# Financial statement audit areas of focus

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## Remuneration disclosures

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<b>Issue</b>	<p>The remuneration report requirements, including fair pay disclosures, are complex, and can require both collation of information from a range of sources and judgement in the application of the requirements (including in some areas where there may not be fully explicit requirements).</p> <p>The GAM remuneration report requirements were updated in 2020/21 to include additional fair pay disclosures, which have increased the complexity of disclosures. In applying the requirements, challenges include:</p> <ul style="list-style-type: none"><li>• identifying the correct population of individuals (which for the fair pay multiple is staff “at the reporting date”);</li><li>• determining whether and how to convert information to annualised, full-time equivalent amounts; and</li><li>• determining whether and how to include agency and temporary staff.</li></ul> <p>These changes introduced additional complexity into remuneration reports, and this is an area which has proven challenging with Trusts not identifying applicable requirements or considering issues in data flows required to determine the disclosures.</p> <p>In 2022/23 there was the additional challenge of determining how to apply the Agenda for Change (AFC) additional pay award to relevant staff, which the GAM specifically required to be included in remuneration report disclosures and calculations.</p> <p>In 2023/24 Trusts need to ensure that calculations take consideration of the AFC additional pay award for 2022/23 which was paid during 2023/24 and that this is not recognised within the 2023/24 balances.</p> <p>Trusts also need to consider the impact of the consultants’ pay award on the reported figures in this year’s remuneration report, including on pay for the Medical Director and in consideration of the range of remuneration for employees.</p>
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<b>Deloitte response</b>	<p><i>We have reviewed the basis of calculation of remuneration report disclosures and the data used to calculate them. Our review of the remuneration report identified a need for additional narrative disclosure, errors in the calculation, and that the calculation did not include an adjustment for the Consultant pay award. We discussed these issues with management to ensure that necessary updates were made to the disclosures.</i></p> <p><i>The calculation of the fair pay multiple is based on annualised FTE data including agency staff as required.</i></p> <p><i>In light of findings noted, we recommend the Trust review the approach to the preparation of the remuneration report with input from all relevant teams within the Trust and review of the detailed requirements of the DHSC GAM and relevant supporting guidance ahead of the year-end, and put in place appropriate controls over preparation of disclosures.</i></p>
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# Auditor's work on Value for Money (VfM) arrangements

The Board are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of 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 Accountable Officer reports on the Trust's arrangements, and the effectiveness with which the arrangements are operating 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. In accordance with the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

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<b>Financial Sustainability</b>	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
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<b>Governance</b>	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
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<b>Improving economy, efficiency and effectiveness</b>	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>
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In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Trust can consider them and set out how it plans to make improvements. We reported a significant weakness in arrangements in 2022/23 which, as set out on the following pages, we consider remains a significant weakness. Additionally, further significant weaknesses we have reported in 2023/24 are set out on the following pages.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. Our assessment of potential indicators has been performed in the context of the overall operating environment for the NHS during 2023/24, including the impact of industrial action, demand pressures, and the activities to recover elective activity levels following the pandemic.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with Board members and management.



Review of Board and committee reports and attendance at Audit Committee meetings.



Reviewing reports from third parties including Care Quality Commission, Internal audit, and correspondence with NHS England.



Considering the findings from our audit work on the financial statements.



Review of the Trust's annual governance statement and annual report.

# Significant weaknesses in VfM arrangements

During our audit, we identified significant weaknesses in the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources. We reported these weaknesses to the Trust, with recommendations for improvement.

Significant weakness	<i>CPIP Delivery</i>
Date reported to the Trust	<i>21 June 2024</i>
VfM criteria affected	<i>Financial Sustainability</i>
Description of the significant weakness	<i>We have identified a significant weakness in arrangements in respect of financial sustainability (how the Trust plans and manages its resources to ensure it can continue to deliver its services), specifically in how the Trust remains behind plan in relation to their CPIP savings.</i>
Evidence for our conclusion	<p><i>As shown within the M9 TAC, the Trust was forecast to deliver savings of £10.8m against the £15.8m efficiency savings target, with the majority expected to be on a recurrent basis. The Period 9 (P9) submission showed £7.9m of recurrent savings and £2.8m of non-recurrent efficiencies. This is an improvement on the prior year where only £3.5m of the £3.8m savings were recurrent.</i></p> <p><i>The CPIP progress report presented to the Trust Management Board in January 2024 showed the Trust's P9 performance against plan and the risk adjusted forecast of savings across division. This showed that the Trust's YTD CPIP target was £10.9m, with a P9 delivery of £6.3m, resulting in a P9 shortfall of £4.6m. The delivery forecast for the full year was adjusted to produce savings of £8.8m, which is £7.9m below the CPIP target for the year of £15.8m which was set at the beginning of the financial year. The divisions with the most significant shortfalls in P9 were medical and surgical, with shortfalls of £1.7m and £1.2m respectively. The actual savings at P12 were £10.4m, with a variance of £5.4m compared to plan.</i></p> <p><i>In 2022/23 we assessed the Trust's arrangements in place and concluded that this was not a significant weakness in arrangements. We set out further commentary in our Auditors Annual Report and noted this as an area of focus for the Trust; there continues to be a need for robust and urgent action to ensure risks to the Trust's financial sustainability going into 2023/24 were addressed through recurrent solutions. However, as the Trust remains to be behind plan in relation to their CPIP savings, we have noted this as a significant weakness in the current year.</i></p>
Impact of the weakness on the body	<i>This will have an impact on the Trust's continuing non-compliance with the statutory break-even duty if savings targets are not met.</i>

# Significant weaknesses in VfM arrangements (continued)

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**Significant weakness*****CPIP Delivery (continued)***

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**Recommendation**

*CPIP delivery needs to remain a focus for the Trust going into 24/25, holding divisions to account in the delivery of their savings. Clear targets and plans to achieve these should be documented and regularly reviewed.*

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**Management response**

*CPIP delivery is a continued focus. For 2024/25 CPIP delivery has been devolved for divisions. We have established a Financial Recovery Board, which is strengthening the governance and providing focused resource on CPIP programme management. We also have divisional check and challenge CPIP session in place.*

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# Significant weaknesses in VfM arrangements (continued)

<b>Significant weakness</b>	<b><i>CQC Section 29a Notice and Requires Improvement Rating</i></b>
<b>Date reported to the Trust</b>	<i>21 June 2024</i>
<b>VfM criteria affected</b>	<i>Governance</i>
<b>Description of the significant weakness</b>	<i>We have identified a significant weakness in arrangements in respect of governance (how the Trust ensures that it makes informed decisions and properly manages its risks) specifically in relation to the Trust's CQC 'requires improvement' rating.</i>
<b>Evidence for our conclusion</b>	<p><i>In December 2023, an unannounced CQC inspection was performed over the emergency department (ED) of the county hospital. The final report was published in February 2024 with a 'requires improvement' rating, and the safety of the service saw its rating decrease from 'requires improvement' to 'inadequate'. It is noted that the inspection was performed on a particularly busy day in the ED. The report noted four 'must do' actions, and five 'should do' actions.</i></p> <p><i>We have evidenced the Trust's action plans in relation to actions raised within the two most recent inspections of Maternity services and the ED. It is clear that each of these action plans are very detailed and highlight that almost all actions are either complete or in progress as at March 2024 when last reported to the Quality Committee.</i></p> <p><i>Whilst the Trust has shown commitment in addressing CQC actions, and is progressing in implementing them, we have raised a significant weakness in 2023/24. The Trust saw a decrease in the rating of their emergency department, with their action plan presented to the Audit Committee very late in the financial year, due to the timing of the report's publication.</i></p>
<b>Impact of the weakness on the body</b>	<i>The reduction in the safety rating of the ED from requires improvement to inadequate, indicates issues with the training of staff members and staff shortages at the Trust. This will have an impact on the safety of patient care.</i>
<b>Recommendation</b>	<i>The Trust should continue to monitor and review actions taken to ensure the desired outcomes are being achieved and become embedded.</i>
<b>Management response</b>	<i>The action plan related to this inspection is presented to Quality Committee on a quarterly basis with a deep dive review due at the end of August 2024.</i>

# Significant weaknesses in VfM arrangements (continued)

<b>Significant weakness</b>	<b><i>NOF 3 rating due to operational performance</i></b>
<b>Date reported to the Trust</b>	<i>21 June 2024</i>
<b>VfM criteria affected</b>	<i>Governance</i>
<b>Description of the significant weakness</b>	<i>We have identified a significant weakness in arrangements in respect of governance (how the Trust ensures that it makes informed decisions and properly manages its risks) specifically in relation the Trust’s NHS Oversight Framework rating of 3.</i>
<b>Evidence for our conclusion</b>	<i>We identified a risk of significant weakness noting that NHSE has assessed the Trust as rated 3 against the NHS Oversight Framework (NOF) –which indicates ‘significant support needs against one or more of the five national oversight themes and in actual or suspected breach of the licence’. Contributing factors to this rating include challenges across areas including: the 62+ day backlog; 4-hour A&amp;E performance and 12-hour decision to admit performance and the significant deficit position that the Trust faces. Certain workstreams saw deterioration in relation to their rating, which included issues in relation to workforce and bed occupancy. The ICB is working with the Trust to develop the exit criteria into segmentation 2. Targets and plans for activity are being agreed with the system to deliver improvements in the areas noted above. It was also recognised that the Trust has taken significant actions to address the weaknesses identified in the latest CQC inspections and that improvements continue to be made, however, as there seems to be deterioration in certain workstreams, and the Trust has remained in segment 3 for the last couple of financial years, we have raised a significant weakness in relation to this.</i>
<b>Impact of the weakness on the body</b>	<i>This rating indicates a lack of significant improvement from the Trust across their workstreams, including safety of patient care and workforce issues. Continuing to remain in segment three could also cause reputational damage to the Trust.</i>
<b>Recommendation</b>	<i>The Trust should continue to ensure it engages in discussions to develop enablers that will help the Trust and the ICS move from a rating of 3 to 2 and then 1.</i>
<b>Management response</b>	<i>We continue to work across Group and alongside the ICB to develop enablers that will help improve the NOF rating.</i>

# Significant weaknesses in VfM arrangements (continued)

<b>Significant weakness</b>	<b><i>Underlying deficit</i></b>
<b>Date reported to the Trust</b>	<i>21 June 2024</i>
<b>VfM criteria affected</b>	<i>Financial Sustainability</i>
<b>Description of the significant weakness</b>	<i>In our 2021/22 AAR, we identified and reported a significant weakness in arrangements in respect of financial sustainability (how the Trust plans and manages its resources to ensure it can continue to deliver its services), specifically in relation to the Trust continuing to be in breach of its statutory duty to achieve a cumulative break-even position.</i>
<b>Evidence for our conclusion</b>	<i>The Trust continues to be in breach of its statutory duty to achieve a cumulative break-even position, with a £13.2m deficit achieved in 23/24 resulting in a cumulative deficit of £156m at 31 March 2024. We have therefore, as required under the NHS Act, issued a S30 referral to the Secretary of State in this regard.</i>
<b>Impact of the weakness on the body</b>	<i>This impacts on the Trust's continuing non-compliance with the statutory break-even duty.</i>
<b>Recommendation</b>	<p><b><i>Prior year recommendation</i></b></p> <p><i>We recommend that the Trust focus upon the identification and delivery of cost improvements in order to develop a balanced plan.</i></p> <p><b><i>Current year recommendation</i></b></p> <p><i>We do not consider it necessary to make any additional recommendations in the current year. Our audit opinion dated 27 June 2024 noted that work is on-going to address the significant weakness.</i></p>
<b>Management response</b>	<i>As part of financial recovery, the Trust has established a Financial Recovery Board, which is strengthening our governance arrangements and the resource focused on CPIP programme management.</i>

# VfM arrangements: Financial Sustainability

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## Approach and considerations

## Commentary

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

The HFMA financial sustainability self-assessment illustrated that there are areas where there is room for improvement for the Trust across business and financial planning, budget setting, budget reporting and monitoring, forecasting etc. Financial plans should link in with operational and workforce plans, and vice versa. The assessment highlighted that a central process needs to be in place to ensure that there is a consistent co-ordination, both in terms of timescales as well as resolution of queries. **The Trust should ensure that progress against the financial sustainability self-assessment actions are monitored and reported back to the audit committee regularly.**

The integrated Care System (ICS) continues to have a significant underlying deficit. It has been noted to be important for the Trust, in conjunction with the ICB to focus on the development of a medium-term financial strategy to demonstrate the elimination of the system deficit.

The Trust reported an adjusted deficit position of £13m at 31 March 2024. The Trust had net assets of £127.2m (31 March 2023: £121.9m), net current assets of £16.8m (31 March 2023: £10.2m), and a cash position of £26.2m (31 March 2023: £35m).

**The Trust continues to be in breach of its statutory duty to achieve a cumulative break-even position, with a £13.2m deficit achieved in 23/24 resulting in a cumulative deficit of £156m at 31 March 2024. We have therefore, as required under the NHS Act, issued a S30 referral to the Secretary of State in this regard.**

The Trust faces a challenging landscape going into 2024/25 with the latest plans (submitted in June 2024) indicating a £31.4m adjusted deficit plan at the Trust and at the System level as at 31/03/2025. The Trust plans to spend circa £32m on capital during 2024/25.

**It is important for the Trust, in conjunction with the ICS to focus on the development of a medium-term financial and service transformation strategy that delivers the Trust and System objectives.** The Trust is an active participant in the ICS, which was established in July 2022 following the implementation of the Health and Care Act 2022. The ICS should produce a medium-term financial plan to follow the joint forward plan produced in June 2023 and the integrated care strategy. This includes key areas on workforce information and divisional performance for each member of the ICB.

# VfM arrangements: Financial Sustainability (continued)

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## Approach and considerations

## Commentary

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

The joint forward plan sets out strategies for the ICS in relation to workforce, finance etc, with the integrated care strategy illustrating where the care system is now strategically, where they want to be, and how this will be achieved and measured. Key points for development of the care system strategy include: greater integration, focus on partnership working, work through collaborative structures, putting patients first and ensuring services are easily accessible.

Alongside other similarly affected providers, the Trust has previously engaged with NHSE regarding the impact of factors such as location, demography, and economy of scale on its financial position. The Trust believes if this gap could be addressed, it could, over the course of several years, deliver productivity and efficiency gains to close the residual challenge and return a recurrent balanced position. **These discussions have been on hold during covid, and it is important that the Trust is able to make progress in this regard so that its underlying position is understood, and it can be on more sustainable financial footing.**

The Trust has historically found delivery of recurrent CPIPs challenging and this will become increasingly challenging going forward within a financially constrained environment.

As shown within the M9 TAC, the Trust was forecast to deliver savings of £10.8m against the £15.8m efficiency savings target, with the majority expected to be on a recurrent basis. The P9 submission showed £7.9m of recurrent savings and £2.8m of non-recurrent efficiencies. This is an improvement on the prior year where only £3.5m of the £3.8m savings were recurrent. The actual savings at P12 were £10.4m, with a variance of £5.4m compared to plan.

**In 2022/23 we assessed the Trusts arrangements in place and concluded that this was not a significant weakness in arrangements. We set out further commentary in our Auditors Annual Report and noted this as an area of focus for the Trust where there continued to be a need for robust and urgent action to ensure risks to the Trust's financial sustainability going into 2023/24 were addressed through recurrent solutions. However, as the Trust remains behind plan in relation to their CPIP savings, we have noted this as a significant weakness in the current year.**

# VfM arrangements: Financial Sustainability (continued)

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## Approach and considerations

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

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## Commentary

The overall 2024/25 CPIP target for the Trust is £20.6m in order to deliver the 24/25 deficit plan, which is c5.6% of budgeted operating expenses. The target has been profiled across the year to encourage Divisions to identify/deliver savings early in the year.

Financial planning is undertaken in partnership with the ICB to develop a system wide and Trust specific plan. The Trust Director of Strategy and Partnerships has overall responsibility for leading the Trust's planning processes and ensuring that strategic and statutory priorities along with system requirements are met. The planning process involves working across Service Development Units, Directorates and Corporate Teams to ensure that there is good cross working and understanding, and that the operational plan is consistent with the finance, workforce and activity plans. Regular meetings are held throughout the planning process to ensure delivery of the actions is on track.

Major contracts are managed and monitored through contract meetings and the use of supplier KPI reports. The Trust's 30-year PFI scheme, relating to the development of the site at Hereford County Hospital will be one of the first to reach the end in April 2029 and a PFI exit committee has been set up, which has members from many different perspectives (including NEDs, Estates, Department of Health) to govern the exit from the PFI contract and improve the Trust's relationship with Mercia in this regard.

**The Trust recognises the need to ensure it takes timely action to appropriately manage the remaining period of the PFI project and prepare for the hand back of the asset in 2029.**

# VfM arrangements: Financial Sustainability (continued)

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## Approach and considerations

## Commentary

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

The Trust have had funding made available to them by the Department for Business, Energy and Industrial Strategy. The Trust have a contract in place to receive Salix finance of around £20m to assist them in carrying out the Integrated Energy Solution Project. We are aware that the grant spans just over three years from 5 October 2022 to 31 March 2025. Centrica Business Solutions are the service provider, who are completing the construction of the Energy Centre for this Project. The Trust are invoiced for and pay in advance for works completed by Centrica.

**We understand that it is generally considered to be a value for money issue where public sector organisations act as a source of finance to contractors who have access to other forms of loan finance; meaning advance payments should usually only be considered in limited circumstances, if for example, a price discount is provided by paying early. Whilst this is not the case, we understand that the Trust have made payments to Centrica in line with works being underway (as stipulated as the required milestone for payment within the contract). For this reason, we have not raised a significant weakness here.**

The structure for risk management at the Trust is based on the organisation of committees and groups who have key roles in the delivery of the risk management agenda. These committees and groups focus on specific areas of activity and provide the assurance that all areas of risk are being adequately managed. Further information on risk management is noted within the Governance commentary on the following pages.

# VfM arrangements: Governance

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## Approach and considerations

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

## Commentary

We noted in our 2020/21 AAR that whilst there were arrangements in place for the development of Business Cases, we suggested the development of a business case tracker and more systematic post implementation reviews. Progress was made in relation to undertaking post implementation reviews during 2021/22. It was noted within our work performed in 2022/23 that there will be a need to consider the benefits of any business cases going forward on a more system wide basis. Each business case is now required to present an analysis resulting in forecasts of what would happen for different options, and proof via reasoning and evidence for choosing a particular option. A business case log and pipeline tracker is also maintained, and we have evidenced post implementation reviews completed for implemented business cases, which require documentation of benefits delivered from the business case, and financial outcomes.

The Trust's head of internal audit opinion for the year was rated as 'adequate and effective'.

The Trust has established Risk Management arrangements in place which are supported by the Trust's Risk Management Strategy. It is noted that the Trust has a BAF risk register, which is presented at public Board meetings. There is also a high-risk register, which includes the same information as the BAF, but indicates the most highly rated risks.

The internal audit review of the BAF was undertaken in the year and was given reasonable assurance with 7 low recommendations. The internal audit review performed by RSM of sickness absence management at the Trust was undertaken in the year also and given a partial assurance rating, with 5 low and 7 medium recommendations.

The internal audit review performed on Directorate/Divisional Governance was also undertaken in the year and given a partial assurance rating, with 9 medium recommendations. The review of the Surgical and Integrated Care Division governance arrangements identified several areas for improvement.

# VfM arrangements: Governance (continued)

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## Approach and considerations

## Commentary

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

For the Internal Audit reviews of: the BAF; sickness absence management; and directorate/divisional governance, we have reviewed findings from the perspective of the financial statement audit. The findings raised have been considered from a VfM perspective and it is noted that detailed actions have been set with deadlines. As the Trust has put in place actions to address, we have not raised a weakness in relation to these reviews.

The December 2023 Audit Committee highlighted the consultant job planning internal audit that took place in 2022/23, with 26 recommendations raised, and provided an update on consultant job planning. It was noted that there has been a significant drop off in engagement in progress job plans with only 8% of all consultant job plans signed off. 18 actions have been completed and the remainder are outstanding and are being addressed. The aim for the Trust is to sign off 80% of consultant job plans by the end of the 2024/25 job planning round.

The Trust has an anti-fraud and bribery policy in place approved by Board. It has an accredited Local Counter Fraud Specialist (LCFS) who delivers a programme of proactive counter fraud and corruption work which is risk based. The effectiveness of the Trust's internal control environment including counter fraud is overseen by the Audit Committee, through an annual counter fraud plan and regular reports to the Audit committee. The main fraud risks relate to conflicts of interest, payroll fraud and cyber fraud.

The counter fraud review highlighted several gaps in the Trust's Conflicts of Interest, Managing Conflicts of Interest, and Sickness Absence policies and a lack of awareness amongst managers of the sickness absence management procedures.

The Trust holds a budget setting policy, which we have evidenced. The Trust has played a proactive part in the development of the Herefordshire and Worcestershire ICB financial plan going forward into 2024/25 to ensure alignment of assumptions and approach.

The Trust holds a monthly timetable, which includes relevant tasks and task owners, with budget to actual information reported on and presented to the Board. The Integrated performance report of the Trust is also presented to Board to highlight both financial and non-financial performance information.

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# VfM arrangements: Governance (continued)

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## Approach and considerations

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

## Commentary

Internal audit performed an advisory review into financial sustainability self-assessment by the Trust and presented to the Audit Committee in June 2023. This identified several recommendations around budget setting and monitoring, forecasting and the financial governance framework. We have reviewed the findings and actions identified in the report and consider the actions identified to be reasonable and have therefore not identified any risks of significant weakness.

Most of the Trust's income flows from contracts with commissioners for health care services. For 2022/23, the total turnover for the Trust (mainly received via healthcare contracts with the Herefordshire and Worcestershire ICB, Worcestershire County Council and other NHS Commissioners) was £330.3m, compared to a turnover of £361.9m for 2023/24. The year-on-year increase in revenue predominantly arises from inflation including the proposed national pay award, service developments from commissioners, including Mental Health Investment Standard, and nationally prescribed Service Development Funding (SDF).

The Trust has a Business Planning Framework which is a key document in establishing a formal, regular, and rigorous system for identifying, articulating, monitoring and delivering local and national priorities, involving Trust staff, system partners and other key stakeholders.

For the purposes of the external audit, we have reviewed Board (Public and Private) and committee meeting minutes. Through our review of these minutes, we have seen the challenge demonstrated by the Board across a range of topics. We note that the Board papers are comprehensive and contain sufficient evidence to allow full and proper challenge.

During all committee meetings the relevant Board Members challenge the evidence presented to them. The Board therefore gain assurance through committee meetings with executive and non-executive directors. Board members who sit on several committees can triangulate and corroborate what they hear in each.

# VfM arrangements: Governance (continued)

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## Approach and considerations

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

## Commentary

The Trust has a Conflicts of Interest Policy that was last reviewed in April 2023, and due for next review in April 2028. The Trust also holds a scheme of delegation and standing financial instructions, which set out procurement approval limits/ roles and responsibilities within the Trust. Each Board member is asked to make an annual declaration of being fit & proper. In addition to this there is a register of interest for members to declare any interests of relevance and a gifts, hospitality and sponsorship register. These practices ensure that the Board is regulated and responsible.

The Trust Board signs off NHSE self-certifications on an annual basis. Consideration is also given to whether there are any risks and mitigating actions which need to be highlighted in the Corporate Governance Statement self-certification. Reporting to the Board is carried out through papers prepared and submitted in advance to allow appropriate levels of scrutiny and challenge.

The Trust's most recent full CQC inspection was published in early 2020 and rated the Trust overall as 'requires improvement'. The report highlighted a number of improvements from the previous inspection which took place in 2018, a 'good' overall rating was 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 in January 2020 in relation to findings within maternity and midwifery services, surgical procedures and treatment of disease, disorder or injury.

The Care Quality Commission (CQC) continued to monitor services under its Transitional Monitoring Arrangements over financial years 22/23 and 23/24, with an inspection of maternity services at Wye Valley NHS Trust in June 2023. The inspection was part of the national inspection arrangements for maternity services, and the Trust was rated as 'good' for this service, with the Well Led domain rated as 'good' and the safety domain rated as 'requires improvement'. Therefore, the Trust is actively working towards making improvements in the areas in which the Section 29a warning Notice was served in January 2020.

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# VfM arrangements: Governance (continued)

Approach and considerations	Commentary
<p>We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:</p> <ul style="list-style-type: none"><li>• how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;</li><li>• how the body approaches and carries out its annual budget setting process;</li><li>• how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;</li><li>• how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and</li><li>• how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.</li></ul>	<p>In December 2023, an unannounced CQC inspection was performed over the emergency department of the county hospital. The final report was published in February 2024, with a 'requires improvement' rating, and the safety of the service saw its rating decrease from 'requires improvement' to 'inadequate'. The report noted four 'must do' actions, and five 'should do' actions.</p> <p>We have evidenced the Trust's action plans in relation to the two most recent inspections of Maternity services and the Emergency department. Each of these action plans are very detailed and highlight that almost all actions are either complete or in progress at the year end.</p> <p><b>Whilst the Trust has shown commitment in addressing CQC actions, and is progressing in implementing them, we have raised a significant weakness in 2023/24. The Trust saw a decrease in the rating of its emergency department, with its action plan presented to the audit committee very late in the financial year, due to the timing of the report publication. The Trust should continue to monitor and review actions taken to ensure the desired outcomes are being achieved and become embedded.</b></p> <p>NHSE has assessed the Trust as rated 3 against the NHS Oversight Framework (NOF), which indicates 'significant support needs against one or more of the five national oversight themes and in actual or suspected breach of the licence'. Contributing factors to this rating include challenges across areas including: the 62+ day backlog; 4-hour A&amp;E performance and 12-hour decision to admit performance and the significant deficit position that the Trust faces. Certain workstreams saw deterioration in relation to its rating, which included issues in relation to workforce and bed occupancy. The ICB is working with the Trust to develop the exit criteria into segmentation 2. Targets and plans for activity are being agreed with the system to deliver improvements in the areas noted above.</p> <p><b>It was also recognised that the Trust has taken significant actions to address the weaknesses identified in the latest CQC inspections and that improvements continue to be made, however, as there seems to be deterioration in certain workstreams, and the Trust has remained in segment 3 for the last couple of financial years, we have raised a significant weakness in relation to this.</b></p>

# VfM arrangements: Governance (continued)

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## Approach and considerations

## Commentary

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

The Trust Board continues to receive regular assurances surrounding these issues and is focused on ensuring improvement actions are in place. We understand that this has not come with any sort of intervention or regulatory requirements from NHSE. Ongoing oversight and assurance on performance is being achieved through quarterly system review meetings undertaken at an ICS level as opposed to anything specific for WVT. Following this significant weakness, the Trust should continue to ensure it engages in discussions to develop enablers that will help the Trust and the ICS move from a rating of 3 to 2 and then 1.

# VfM arrangements: Governance (continued)

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## Commentary

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### **Provider Code of Governance**

The new NHS Provider Code of Governance was effective from 1 April 2023. The Trust's compliance statement with the Code is on page 88 of the Annual Report, which states the Trust considers it has complied with the provisions of the Code throughout the year.

### **Capital expenditure**

The Trust entered into vesting certificates with certain of its capital suppliers ahead of year-end. These agreements are intended to transfer legal title ahead of receipt of goods, in exchange for payment in advance. Vesting certificates can be a legitimate risk management tool if advance payments are required for commercial reasons to secure orders for goods in high demand or with long lead times. Managing Public Money states that public sector organisations should not use interim payments to circumvent spending controls, such as to avoid underspending the capital budget for the year.

The total value of vesting certificates in use by the Trust is £337k, which equates to circa 0.5% of the total capital additions population for 2023/24. We have considered the fact pattern surrounding the use of vesting certificates and concluded the Trust appropriately paid for assets in advance of physically receiving them to mitigate the risk of increased costs due to increasing inflation and to save costs as part of value for money, to ensure that key resources were obtained in the near future to deliver the care requirement and to save costs by storing the goods with the supplier.

### **Governance over climate-related risks**

Climate change presents significant challenges for the NHS in adapting to a changing environment. As part of its response to these challenges, the Government is adopting the Task Force on Climate-related Financial Disclosures (TCFD) as a framework for public sector bodies to analyse, understand and disclose climate-related financial information, in order to support the management of climate-related financial risks and opportunities. The Government is adopting a phased approach to implementing TCFD disclosures in the public sector, with 2023/24 only requiring disclosures under the "Governance Pillar". The Trust's disclosures in the Performance Analysis section of the Annual Report set out the board's oversight of the Trust's approach to assessing and managing climate-related issues, and underlying management structures in respect of this.

As noted in the Annual Report, during the year, the Trust has developed a Climate Change Adaptation Plan; considering how the changing climate will impact on buildings and services over the coming years. The plan sets out a number of actions that mark the start of a longer-term scheme to adapt its buildings to make them safer and more comfortable for patients and staff. To ensure that the Trust meets its obligations under the Climate Change Act and the Adaptation Reporting requirements are complied with, it has established a Sustainability Group which is chaired by the Chief Strategy and Planning Officer which reports to the Trust Management Board.

See Appendix 1 (page 42) for Deloitte insights regarding the Trust's Governance over climate-related risks.

# VfM arrangements: Improving economy, efficiency and effectiveness

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## Approach and considerations

We have considered how the body uses information

about its costs and performance to improve the way it manages and delivers its services, including:

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

## Commentary

The Trust is part of the Herefordshire and Worcestershire Integrated Care System. An integrated care strategy has been developed and was finalised in April 2023 with the following aims:

- Providing children with the best start in life
- Support people to live well and age well
- Reduce ill health and premature deaths from avoidable causes

The Trust is also part of a wider 'Foundation Group' with South Warwickshire NHS Foundation Trust (SWFT) and George Eliot Hospital (GEH). This structure sees each Trust operate independently and maintain its identity but provides a platform for collaboration and identifying solutions to shared challenges. In early 2023/24 the Foundation Group approved Worcestershire Acute Hospitals NHS Trust to join the group.

The 'Foundation Group' model has brought about a number of benefits for each Trust. The procurement of goods, systems and services can be done more competitively through the Foundation Group's combined size, and knowledge and experience can be shared seamlessly. Important measures of quality such as NHS Staff Survey results illustrate that this partnership and pooling of resources is delivering improvements in acute and community-based patient care.

The Trust Board receives regular updates from the Foundation Group Strategy Sub-Committee as well as performance updates in year and at year end against the Annual Trust and Foundation Group Objectives (where the Trust is working with group colleagues to achieve joint objectives).

The Trust has moved to host a procurement shared service across the Foundation Group. This went live during 2021/22 (July 2021). 2023/24 has been spent undertaking discovery work around processes and procedures so that these can be aligned across the Trusts.

# VfM arrangements: Improving economy, efficiency and effectiveness (continued)

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## Approach and considerations

## Commentary

We have considered how the body uses information

about its costs and performance to improve the way it manages and delivers its services, including:

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

There is a Foundation Group Procurement Board (FGPB). The Board has been established to provide appropriate governance, with full auditable trails, to perform a systematic review of product/ service proposals before they are purchased by the Trust(s). As sub sections to the Procurement Board, group workstreams have been be created to review specific projects to ensure a compliant route to market, assess risk, agree the strategic approach, quality, safety and value for money.

The FGPB will advise and report to Trust(s) Management Board on the progress against agreed workplan and saving targets. The Board will assess the progress of the Procurement/Divisional workplan and support standardisation and rationalisation of product/services to optimise patient and staff safety, cost effectiveness and value for money across the Foundation Group.

There is a Procurement Shared Services Roadmap that considers the arrangements that will be put in place over the short (0-6 months), medium (6-12months) and long term (12-24 months). This is supported by a detailed Procurement Improvement Plan for which monthly progress updates are reported to the CFO collaborative. The Procurement Service is a member of the ICS Procurement Forum which has representation from each of the Trusts/functions within the System. The forum meets monthly and is monitoring progress against the Procurement Target Operating Model (PTOM).

The Trust's Standing Financial Instructions (SFI) state that the waiving of competitive tendering procedures should not be used to avoid competition or for administrative convenience or to award further work to a consultant originally appointed through a competitive procedure. Where it is decided that competitive tendering is not applicable and should be waived, the fact of the waiver and the reasons are documented and recorded in the agreed Single Tender Waiver Document and reported to the Audit Committee.

The Shared Service now have oversight of all waivers within the Foundation Group and are actively managing spend categories across the group to leverage best value and best practise.

# VfM arrangements: Improving economy, efficiency and effectiveness (continued)

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## Approach and considerations

## Commentary

We have considered how the body uses information

about its costs and performance to improve the way it manages and delivers its services, including:

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

The Trust's Integrated Performance Report (IPR) brings out key issues and rationale/further work underway, along with any areas of significant improvement. The IPR is consistent across the foundation group and is regularly summarised and taken to the Foundation Group board as a benchmarking exercise. In addition to benchmarking of the IPR, both the Foundation Group and ICB perform deep dive exercises into specific areas to identify recommendations and productivity opportunities.

The Trust made changes in 2021/22 with divisions being given more responsibility for both financial and operational delivery. To support this, the Trust has moved away from a singular finance and performance (F&P) committee to an F&P Exec with NEDs observing during the year. Each division is provided with a one-hour slot, on a single day, enabling real focus and challenge around the divisions' finance and performance information.

The Trust's Integrated Performance Report includes Productivity and Efficiency Measures based on the Model Hospital. Included in this is the key productivity measure within the Model Hospital which is Cost Per Weighted Activity Units (WAU). This is based on Trusts' annual national cost collection. Because this collection is annual, and not published within the Model Health System until the February after collection, by the time it is published, it can be quite out of date, particularly when there have been significant changes affecting Trusts activity and costs, such as strike action. As such, the Trust has developed an in-house Cost per Weighted Activity Unit measure, which allows monitoring of the Trust's productivity compared to pre Covid on a monthly basis (as opposed to the annual data provided in the Model Health System). There is an increase of 6% in the cost per WAU between 2019/20 and 2023/24. However, we see a reduction in cost per WAU between 2023/24 and 2022/23 indicating productivity has improved.

# VfM arrangements: Improving economy, efficiency and effectiveness (continued)

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## Approach and considerations

## Commentary

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We have considered how the body uses information

about its costs and performance to improve the way it manages and delivers its services, including:

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

The Trust is also a member of the One Herefordshire Partnership (1H).

Members of 1H include, Herefordshire General Practice representatives, Herefordshire Council, Wye Valley NHS Trust and Hereford and Worcestershire Health and Care NHS Trust.

The One Herefordshire approach is founded on the recognition that Herefordshire's health and care organisations could only find solutions to the strategic issues they face collectively. The Covid outbreak galvanised this arrangement significantly, heralding a much more agile, permissive approach underpinned by clinician and practitioner leadership. This approach was formalised in the creation of the partnership and its associated governance structure in June 2021.

The partnership enables engagements from Taurus, the Hereford Medical group, which is a collective of all GP practices across Herefordshire and incentivises further clinical scrutiny of the Trust. The memorandum of understanding for the partnership was drafted to ensure collective collaboration.

Finally, the Trust has established a PFI Expiry Board sub-committee to oversee the hand back plan for the PFI contract. The approach to expiry covers not just the lifecycle maintenance considerations but also future plans for service provision. The Trust is proactively engaging with national colleagues at the Department of Health in relation to this. A dedicated contract expert is now in place to support the programme involving exit from the contract.

# VfM arrangements: Improving economy, efficiency and effectiveness (continued)

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## Commentary

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### **Using information on Health Inequalities to inform service improvements**

NHS England published its first Statement on Information on Health Inequalities in November 2023, setting out NHS England's views on how the powers available to NHS bodies to collect, analyse and publish information should be exercised in respect of health inequalities.

There is currently not a comprehensive process to understand health access, experience and outcomes through analysing information on health inequalities and using this to inform actions.

### Deloitte insight

We recommend the Trust review what changes are required to its data collection and analysis processes to support reporting in this area, and how additional analysis and reporting should be considered in the Trust's governance processes.

# Purpose of our report and responsibility statement

## What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Trust's arrangements.

## What we don't report

Our audit was not designed to identify all matters that may be relevant to the Trust.

Also, there will be further information the Board of Directors need to discharge their governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

## Use of this report

This report is made solely to the Board of Directors of Wye Valley NHS Trust in accordance with the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the Trust those matters we are required to state to them in our Audit Report and Auditor's Annual Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust, as a body, for our audit work, for this report, or for the opinions we have formed.

**Deloitte LLP**

Cardiff | 11 September 2024

# Appendix 1: Recommendations

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We have summarised below the recommendations we have made in respect of significant weaknesses in the Trust's VfM arrangements and Deloitte insights where there are opportunities to strengthen arrangements to secure economy, efficiency and effectiveness in the use of resources.

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## **CPIP Delivery**

CPIP delivery needs to be a focus for the Trust going into 2024/25, holding divisions to account in the delivery of their savings. Clear targets and plans to achieve these should be documented and regularly reviewed.

**Observation - See page 15 & 21**

## **CQC Section 29a Notice and Requires Improvement Rating**

The Trust should continue to monitor and review actions taken to ensure the desired outcomes are being achieved and become embedded.

**Observation – See page 17 and 28**

# Appendix 1: Recommendations (continued)

## **NOF 3 rating due to operational performance**

The Trust should continue to ensure it engages in discussions to develop enablers that will help the Trust and the ICS move from a rating of 3 to 2 and then 1.

**Observation - See page 18 & 28**

## **Underlying deficit**

### **Prior year recommendation**

We recommend that the Trust focus upon the identification and delivery of cost improvements in order to develop a balanced plan.

### **Current year recommendation**

We do not consider it necessary to make any additional recommendations in the current year. Our audit opinion issued on 27 June 2024 noted that work is on-going to address the significant weakness.

**Observation – See page 19 and 20**

# Appendix 1: Recommendations (continued)

## **Progress against the financial sustainability self-assessment actions**

*Deloitte insight*

### **Observation – See page 20**

The HFMA financial sustainability self-assessment illustrated that there are areas where there is room for improvement for the Trust across business and financial planning, budget setting, budget reporting and monitoring, forecasting etc. Financial plans should link in with operational and workforce plans, and vice versa. The assessment highlighted that a central process needs to be in place to ensure that there is a consistent co-ordination, both in terms of timescales as well as resolution of queries.

### **Recommendation**

The Trust should ensure that progress against the financial sustainability self-assessment actions are monitored and reported back to the Audit Committee regularly.

## **Using information on Health Inequalities to inform service improvements**

*Deloitte insight*

### **Observation – See page 36**

NHS England published its first Statement on Information on Health Inequalities in November 2023, setting out NHS England's views on how the powers available to NHS bodies to collect, analyse and publish information should be exercised in respect of health inequalities.

There is currently not a comprehensive process to understand health access, experience and outcomes through analysing information on health inequalities and using this to inform actions.

### **Recommendation**

We recommend the Trust review what changes are required to its data collection and analysis processes to support reporting in this area, and how additional analysis and reporting should be considered in the Trust's governance processes.

# Appendix 1: Recommendations (continued)

## **Development of a medium-term financial and service transformation strategy**

### ***Deloitte insight***

#### **Observation – See page 20**

The Trust is an active participant in the ICS, which was established in July 2022 following the implementation of the Health and Care Act 2022. The ICS should produce a medium-term financial plan to follow the joint forward plan produced in June 2023 and the integrated care strategy. This includes key areas on workforce information and divisional performance for each member of the ICB.

#### **Recommendation**

It is important for the Trust, in conjunction with the ICS to focus on the development of a medium-term financial and service transformation strategy that delivers the Trust and System objectives.

## **Engaging with NHSE on deficit impact factors**

### ***Deloitte insight***

#### **Observation – see page 21**

The Trust has previously engaged with NHSE regarding the impact of factors such as location, demography, and economy of scale on its financial position. The Trust believes if this gap could be addressed, it could over the course of several years deliver productivity and efficiency gains to close the residual challenge and return a recurrent balanced position.

#### **Recommendation**

It is important that the Trust can make progress regarding the above so that its underlying position is understood, and it can be on more sustainable financial footing.

# Appendix 1: Recommendations (continued)

## **Importance of taking timely action to appropriately manage the remaining period of the PFI project**

*Deloitte insight*

**Observation – See page 22**

Major contracts are managed and monitored through contract meetings and the use of supplier KPI reports. The Trust's 30-year PFI scheme, relating to the development of the site at Hereford County Hospital will be one of the first to reach the end in April 2029 and a PFI exit committee has been set up, which has members from many different perspectives (including NEDs, Estates, Department of Health) to govern the exit from the PFI contract and improve the Trust's relationship with Mercia in this regard.

### **Recommendation**

The Trust recognises the need to ensure it takes timely action to appropriately manage the remaining period of the PFI project and prepare for the hand back of the asset in 2029.

## **Payment in advance of work completion**

*Deloitte insight*

**Observation – see page 23**

The Trust have had funding made available to them by the Department for Business, Energy and Industrial Strategy. The Trust have a contract in place to receive Salix finance of around £20m to assist them in carrying out the Integrated Energy Solution Project. We are aware that the grant spans just over three years from 5 October 2022 to 31 March 2025. Centrica Business Solutions are the service provider, who are completing the construction of the Energy Centre for this Project. The Trust are invoiced for and pay in advance for works completed by Centrica.

We understand that the Trust have made payments to Centrica in line with works being underway (as stipulated as the required milestone for payment within the contract). For this reason, we have not raised a significant weakness here.

### **Recommendation**

It is important that the Trust ensures they follow the management of public money principles when entering contracts for the receipt of goods/services.

# Appendix 1: Recommendations (continued)

## **Task Force on Climate-Related Financial Disclosures**

### ***Deloitte insight***

#### **Observation – See page 30**

The Government is adopting a phased approach to implementing TCFD disclosures in the public sector, with 2023/24 only requiring disclosures under the “Governance Pillar”.

As noted in the Annual Report, during the year, the Trust has developed a Climate Change Adaptation Plan; considering how the changing climate will impact on buildings and services over the coming years.

#### **Recommendation**

We recommend the Trust consider whether any enhancements should be made in respect of:

- whether climate-related risks are sufficiently reflected in the Trust’s risk registers and Board Assurance Framework;
- how climate-related issues are considered when setting strategy;
- how climate-related issues are considered when overseeing major capital expenditure; and
- how information is reported back to the Board about processes within the Trust for assessing and managing climate-related issues.

# Appendix 2: Trust's responsibilities

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**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 Chief Executive as Accountable Officer and the directors 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 they 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. In applying the going concern basis of accounting, the directors have applied the 'continuing provision of services' approach set out in the Group Accounting Manual, as it is anticipated that the services the Trust provides will continue into the future.

The directors are required to confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for patients, regulators and stakeholders to assess the Trust's performance, business model and strategy.

The Accountable Officer is responsible for ensuring that there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance, for ensuring that value for money is achieved from the resources available to the Trust, for ensuring that expenditure and income of the Trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them, and for ensuring that effective and sound financial management systems are in place.

The directors are responsible for safeguarding the assets of the Trust, for taking reasonable steps for the prevention and detection of fraud and other irregularities, for ensuring proper stewardship and governance, and for reviewing regularly the adequacy and effectiveness of these arrangements.

# Appendix 3: Auditor's responsibilities

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## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Auditor's responsibilities relating to the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under the Code of Audit Practice and 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.

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

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General, as to whether the Trust has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Trust a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024. Other findings from our work, including our commentary on the Trust's arrangements, are reported in our Auditor's Annual Report.

## **Auditor's other responsibilities**

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Trust, copied to the Secretary of State
- make a referral to the Secretary of State and NHS England if we believe that the Trust or an officer of the Trust is
  - about to make, or has made, a decision which involves or would involve the Trust incurring unlawful expenditure;
  - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency
- consider whether to issue a report in the public interest.



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