Auditor’s Annual Report

United Lincolnshire Hospitals NHS Trust – year ended 31 March 2022

June 2022

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Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for United Lincolnshire Hospitals NHS Trust ('the Trust') for the year ended 31 March 2022. Although this report is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements
We issued our audit report on 20 June 2022. Our opinion on the financial statements was modified to include reference to the Section 30 referral we made on 7 June 2022 relating to the Trust's breakeven position (see page 28).

Value for Money arrangements
In our audit report issued we reported that we had completed our work on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued any new recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Trust's arrangements and a summary of our continuing recommendations against previously reported significant weaknesses.

Wider reporting responsibilities
In line with group audit instructions issued by the National Audit Office (NAO), on 20 June 2022 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.

We issued a Section 30 Referral to the Secretary of State for Health and Social Care relating to the Trust's non-achievement of the breakeven duty on 7 June 2022, this is explained on page 28.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on 20 June 2022 gave an unqualified opinion on the financial statements for the year ended 31 March 2022, modified to mention the Section 30 Referral to the Secretary of State for Health and Social Care (page 28) we made on 7 June 2022.

The table summarises the key risks we identified to address through our work on the financial statements and the conclusions we reached, which were reported to the Audit & Risk Committee on 8 June 2022 in our Audit Completion Report and concluded in our Follow-Up letter dated 17 June 2022.

Audit Risk Description	Level of audit risk	Audit conclusions
Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.	**Significant risk:** an area that, in our judgment, requires special audit consideration.	There are no matters to report in respect of management override of controls.
Risk of fraud in expenditure recognition With the changes in the NHS funding for 2021/22, we consider there to be a risk in whether non-pay contractual operating expenditure has been recognised in the correct financial year; and over the completeness, existence and valuation of material non-pay and contract payables.	**Significant risk**	Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.
Valuation of land, buildings and dwelling assets Land, buildings and assets under construction are a significant balance in the Trust's statement of financial position, accounting for £197.6m of the Trust's £267.8m property, plant and equipment balance at 31 March 2022. The valuation of these assets is complex and is subject to a number of assumptions and judgements,.	**Significant risk**	Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.
Recognition of capital expenditure and incorrect capitalisation of revenue spend The Trust has a significant capital programme in place for 2021/22, with £45.7m being capitalised during the year. The level of work in progress (Assets Under Construction) was also high with £27.7m being recorded at the year end. Capital expenditure is met from ring-fenced funding and with the Trust's large capital programme, we set an enhanced audit risk relating to the need to ensure that expenditure that has been capitalised meets the definition of capital expenditure and is correctly accounted for.	**Enhanced risk:** an area of higher assessed risk of material misstatement that requires additional consideration but does not rise to the level of a significant risk.	Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

03

Section 03:

Our work on Value for Money arrangements

3. VFM arrangements

Overall Summary

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Trust plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the Trust ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the Trust uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Trust has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor’s Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

  We make these recommendations for improvement where we have identified a significant weakness in the Trust’s arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

  We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	2020/21 Actual significant weaknesses identified?	2021/22 Commentary page reference	2021/22 Identified risks of significant weakness?	2021/22 Actual significant weaknesses identified?	2021/22 Other recommendations made?
Financial sustainability	Yes Pages 22, 23, 24 and 25	11	No	**No new matters arising in 2021/22.** However, the following matters from 2020/21 remain a significant weakness for 2021/22: • Capital Backlog and Fire Safety Notices • Workforce: agency spend and staffing indicators (also under Improving Economy, Efficiency and Effectiveness reporting criteria) • The Trust's financial sustainability	No
Governance	Yes Page 26	15	No	No new matters arising in 2021/22.	No
Improving economy, efficiency and effectiveness	Yes Pages 22 and 24	17	No	**No new matters arising in 2021/22.** However, the following matter from 2020/21 remain a significant weakness for 2021/22: Workforce: agency spend & staffing indicators (also reported under the financial sustainability criteria)	No

3. VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Significant weakness in 2020/21	In 2020/21, we reported on four significant weakness in arrangements: • The Trust being in special measures (also under Improving Economy, Efficiency and Effectiveness reporting criteria) • Capital backlog and fire safety notices • Workforce: agency spend and staffing indicators (also under Improving Economy, Efficiency and Effectiveness reporting criteria) • The Trust's financial sustainability.
New significant weaknesses identified in 2021/22	None.

Position brought forward from 2020/21

As set out in the table above, we reported four significant weakness in the Trust's arrangements for 2020/21. Our commentary on the progress made against these actions is set out on pages 22-25, summarised as:

- The Trust being in special measures (also under Improving Economy, Efficiency and Effectiveness reporting criteria) – in our view, this significant weakness in arrangements **does not** apply in 2021/22.
- Capital backlog and fire safety notices – in our view, this significant weakness in arrangements **continues** to apply in 2021/22.
- Workforce: agency spend and staffing indicators (also under Improving Economy, Efficiency and Effectiveness reporting criteria) – in our view, this significant weakness in arrangements **continues** to apply in 2021/22.
- The Trust's financial sustainability – in our view, this significant weakness in arrangements **continues** to apply in 2021/22.

Background to the NHS financing regime in 2021/22

Following the onset of the Covid-19 pandemic in March 2020, the original NHS Planning Guidance 2020/21 was suspended and a new financial regime was implemented. For the second half of the 2020/21 year (October 2020 to March 2021) there was a move to "system envelopes", with funding allocations covering most NHS activity made at the system level, including resources to meet the additional costs of the Covid-19 pandemic. The 2021/22 financial year was also split into two halves, with a different funding regime in each. However, the regimes were largely a continuation of those introduced in 2020/21 in response to Covid-19, where system envelopes and block payment arrangements remained in place.

The 2021/22 H1 (April 2021 to September 2021) envelopes comprised of adjusted CCG allocations, system top-ups and Covid-19 fixed allocations, based on the H2 2020/21 envelopes, adjusted for known pressures and policy priorities. The 2021/22 H1 NHS guidance also confirmed that block payment arrangements would remain in place for relationships between NHS commissioners and NHS providers. The guidance for H2 (October 2021 to March 2022) confirmed that the arrangements would stay broadly consistent with a continuation of the H1 framework. The 2021/22 H2 "system envelopes" contained adjusted CCG allocations, system top-ups and Covid-19 fixed allocations, based on the H1 2021/22 envelopes adjusted for additional known pressures, such as the impact of pay awards, and increased efficiency requirements.

Over the course of the year and into 2022/23, the focus of the funding regime has shifted from responding to the immediate challenges caused by Covid-19 to supporting recovery in the healthcare system. This has facilitated the need for collaborative working between commissioners and providers, as local systems were expected to work together to deliver a balanced position in 2021/22, with additional funding available for those systems exceeding target activity levels through the Elective Recovery Fund. The planning guidance for 2022/23 supports the transition back to local agreement of contracts, and requires systems to achieve a break even position each year. This will necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Overall responsibilities for financial governance

We have reviewed the Trust's overall governance framework, including Board and committee reports, the Annual Governance Statement and Annual Report and Accounts, to confirm the Trust Board has a responsibility to make the best use of financial resources and deliver the services people need, to standards of safety and quality which are agreed nationally. We have reviewed reports and minutes of the Board to confirm there are financial governance arrangements in place, including the role of the Finance, Performance and Estates Committee to provide oversight on all aspects of financial management and operational performance on behalf of the Board.

The Trust's financial planning and monitoring arrangements

Through our review of Board and committee reports, meetings with management and relevant work performed on the financial statements, we are satisfied that the Trust's arrangements for budget monitoring remain appropriate, and these include:

- Standing Financial Instructions with relevant provisions for budgetary control and reporting, including arrangements for Finance Managers to provide reports and support to budget holders and teams to support effective financial management of those component parts of Trust financial performance.
- Oversight from the Trust Board and its committees receiving regular reports on financial performance and planning, through an Integrated Performance Report and detailed reports on finance.
- Established arrangements for year-end financial reporting, where we have seen improvement each year, despite increasing challenges placed on the finance team concurrent financial reporting and 2022/23 financial planning deadlines.

The Trust's financial outturn for 2020/21 does not indicate any significant VFM issues, albeit within the context of the funding regime for the year. The Trust's financial statements show an operating deficit of £0.5m (compared to the prior year surplus of £8.8m) and an overall deficit for the year of £7.2m (2020/21 was a £3.6m surplus), against gross expenditure of £681m.

Whilst the financial statements for 2021/22 showed the Trust has positive net current assets of £10m and a positive cash balance of £88m, the Income & Expenditure Reserve is, however, [minus] -£464m.

Capital

The Trust regularly monitor's progress against capital expenditure through its Finance, Performance and Estates Committee (FPEC) and the Fire Safety Risk was embedded into the Board Assurance Framework and the Fire Safety Notices lifted as at July 2021.

The Trust had a capital programme of £45.7m for 2021/22 and actual capital expenditure of £45.7m was incurred. Our testing of capital additions through the financial statement audit did not identify any issues. The delivery of 2021/22 Capital Programme contributes to the remaining backlog of critical infrastructure, but this remains at over £200m and the Trust estimates that future years capital programme monitored via the Capital Delivery Group, will at most tackle £20m of backlog in any given year.

See page 23 for further commentary.

Workforce

The Trust has taken action to improve workforce indicators, however, NHS staff survey results continue to place the Trust either as the worst, or below average in all domains (see page 24). Our review of the financial statements demonstrates that there has been an increase in the number of full time equivalent employees of more than 300, mainly via international recruitment. However, agency costs continue to rise and are were £46m for 2021/22 (up from £42m in 2020/21).

See page 24 for further commentary.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Note 38 of the financial statements subject to our audit sets out the Trust's performance against the statutory break-even duty, which we have re-produced in the table below as well as showing the two major components of Taxpayer's Equity: Public Dividend Capital and the Income & Expenditure Reserve. Figures in brackets represent a deficit position:

	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£;000)
Breakeven Duty				
Breakeven duty in-year financial performance	(87,945)	(41,876)	3,149	2,665
Breakeven duty cumulative position	(330,474)	(372,350)	(369,201)	(366,536)
Taxpayer's Equity				
Public Dividend Capital	260,042	267,906	677,570	704,180
Income and expenditure reserve	(422,232)	(462,642)	(457,742)	(464,266)
Total Taxpayer's Equity	(134,690)	(168,497)	247,540	269,398

The Trust's arrangements and approach to Financial planning 2022/23

For 2022/23 the NHS will revert to contracting arrangements instead of the current block payments system introduced to simplify arrangements during the Covid pandemic. The Trust continues to work collaboratively with the Integrated Care System through the development of the financial plan for 2021/22 and 2022/23. The system is currently planning for a deficit position, due to a reduction in non-recurrent income as a result of changes to Covid funding, as well as in year cost pressures.

As set out in NHS Lincolnshire CCG's public Board meeting of 25 May 2022, the CCG/ICB 2022/23 draft financial plan has a deficit of £27m, meaning planned expenditure is higher than the allocation available. NHSE/I regional teams have mandated intensive support to the CCG/ICB to be delivered through the nationally co-ordinated Recovery Support Programme (RSP).

The Trust financial plan for 2022/23, submitted in March 2022, includes the requirement for a £25m savings target to achieve breakeven. The Trust's track record in delivering savings is not strong. We also noted that, as set out in the Trust's Going Concern Paper to the Audit and Risk Committee in April 2022, historic performance against the breakeven duty remains a deficit of £367m.

We reviewed the Board and committee papers supporting the submission of the 2022/23 financial plan and have discussed these with management. We also reviewed the Board Assurance Framework as presented of the May Board, which confirms that during 2022/23, the Trust is planning a refresh of internal costing and service line reporting information for and for granular cost improvement programme implementation plans to be monitored via the Finance, Performance & Estates Committee.

Significant weakness in arrangements in financial sustainability

The Trust's financial sustainability, is dependent on the resolution of long-standing issues in workforce planning and estates. It is also dependent on the national funding structures yet to be determined. These long-standing issues, alongside the need to respond and adapt to Covid-19, have prevented the Trust from improving arrangements during 2020/21. **As a result, in our view, whilst there is evidence of improvement regarding the Trust's financial sustainability, there is not yet enough to demonstrate sustainable improvement to address the previously reported significant weakness in arrangements regarding:**

- **Capital backlog and fire safety notices**
- **Workforce: agency spend and staffing indicators (also under Improving Economy, Efficiency and Effectiveness reporting criteria)**
- **The Trust's financial sustainability (See page 25].**

3. VFM arrangements

Governance

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Significant weakness in 2020/21	In 2020/21, we reported on a single significant weakness in arrangements: • Judicial review of the Trust's downgrading of Grantham Hospital A&E to an urgent care centre.
New significant weaknesses identified in 2021/22	None.

Based on our work, we are satisfied that the Trust has established governance arrangements, consistent with previous years, in place. The Trust has a full suite of governance arrangements in place. These are set out in the Trust's Annual Report and Annual Governance Statement. We reviewed these documents as part of our audit and confirmed they were consistent with our understanding of the Trust's arrangements.

In 2020/21, we reported on one significant weakness in arrangements, which, as explained on page 26, we are satisfied is no longer relevant in 2021/22.

Our review of the Trust's governance framework confirms arrangements are in place, with the Trust Board being accountable for the Trust's strategies, policies and performance. The Trust has established committees with responsibility for specific areas, such as finance and performance, clinical risk and patient safety, including:

- Audit and Risk Committee
- Quality Governance Committee
- Remuneration Committee
- Finance, Performance and Estates Committee
- People and Organisational Development Committee.

We consider the committee structure of the Trust is sufficient to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

Our review of Board and committee papers confirms that a template covering report is used for all Board reports, ensuring the purpose, strategic context, governance issues, and recommendations are clear. Minutes are published and reviewed by the Board to evidence the matters discussed, challenge and decisions made.

The Trust records strategic risks in the Board Assurance Framework and our review confirms it is sufficiently detailed to manage the Trust's key risks, identify controls, gaps in controls and obtain the assurance required to work towards a targeted risk score. Our review of reports as well as attendance at Audit and Risk Committee meetings confirms the Board Assurance Framework is regularly updated and in sufficient detail to allow for adequate review including primary risk controls, gaps, plans to improve controls and any additional actions required.

No significant weakness in internal control have been identified from our work and Internal Audit have not identified any significant weaknesses in the governance, risk and the control environment in the 2021/22 Head of Internal Audit annual opinion.

The Audit and Risk Committee considers the Board Assurance Framework, Annual Report and Accounts, and Annual Governance Statement and monitors progress against internal and external audit plans. We have attended Audit and Risk Committee meetings and reviewed supporting documents and are satisfied that the programme of work is appropriate for the Trust's requirements. Our attendance at Audit and Risk Committee has confirmed there continues to be an appropriate level of effective challenge.

Overall, we have not identified any indicators of a significant weakness in the Trust's arrangements relating to the Governance criteria.

3. VFM arrangements

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

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Significant weakness in 2020/21	In 2020/21, we reported on two significant weakness in arrangements: • The Trust is in Special Measures (also reported under the financial sustainability criteria) • Workforce: agency spend & staffing indicators (also reported under the financial sustainability criteria).
New significant weaknesses identified in 2021/22	None.

We have reviewed key reports issued by the Board and confirmed the Trust reports its performance in several different ways:

- an Integrated Performance Report to each Board meeting
- the publication of the Quality Report, Annual Report and Accounts, and Annual Governance Statement, which are reviewed by the Audit and Risk Committee before adoption by the Board.

Our review of Trust Board and committee reports and minutes confirms that regular Integrated Performance Reports have been received. Performance is summarised in format which shows performance against target and over time. Board members are also able to triangulate information from this report with the assurance summaries from supporting committees, where committee chairs draw attention to assurances provided or matters escalated for the full Board's attention. Our review confirms the reports provide sufficient detail to understand performance and published minutes demonstrate sufficient challenge from non-executive directors on the Trust's costs, performance and service delivery. In our view, the Trust's reports are adequately laid out and sufficiently detailed to monitor performance and take corrective action where required, which may include updating the Board Assurance Framework.

Special measures

We have reviewed the reports issued by the Care Quality Commission (CQC), who recognised widespread improvements at United Lincolnshire Hospitals NHS Trust following an inspection of its medical, maternity, urgent and emergency services and services for children and young people. The CQC carried out the inspection in October 2021 at Pilgrim Hospital and Lincoln County Hospital as part of continual checks on the safety and quality of healthcare services.

Whilst the overall Trust rating remained "requires improvement", the Trust's ratings for being effective and well-led went up from "requires improvement" to "good". Safe and responsive remained as "requires improvement" and caring remained as "good". The ratings for medical care and children's and young people's services at Lincoln County Hospital went from "requires improvement" to "good". Children's and young people's services at Pilgrim Hospital went up from "inadequate" to "good". Urgent and emergency services went up from "inadequate" to "requires improvement" and maternity services at Pilgrim Hospital went up from "requires improvement" to "good".

As a result of improvements seen, the CQC recommended that the Trust be moved out of the Recovery Support Programme and NHSE/I removed the Trust from special measures/Recovery Support Programme with immediate effect (March 2022).

We reviewed NHSE/I's website and confirmed, as at 17 May 2022, the Trust is in Segment 3 of the system oversight framework "Significant support needs" and that the Trust is not subject to NHSE/I action under the Recovery Support Programme - we did note, however, that the Lincolnshire ICS has been put into the Programme recognising system level issues for Lincolnshire.

For the above reasons, as set out at page 22, we believe the Trust's actions during 2021/22 have addressed the significant weakness in arrangements that led to the Trust's being placed in special measures. Note, however, there are other areas, principally relating to financial sustainability, that remain a significant weakness for the Trust to address.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Workforce indicators: NHS Staff Survey

We obtained the 2021 NHS Staff Survey published in March 2022 and reviewed Trust Board and committee papers, confirming the survey results received an appropriate level of scrutiny. The overall theme scores are shown in the table below, with the Trust remaining amongst the poorest performing Trust's in the survey.

	Best	Average	ULHT	Worst
We are compassionate and inclusive	7.8	7.2	6.7	6.7
We are recognised and rewarded	6.5	5.8	5.5	5.3
We each have a voice that counts	7.3	6.7	6.1	6.1
We are safe and healthy	6.5	5.9	5.6	5.5
We are always learning	6.0	5.2	4.6	4.3
We work flexibly	6.7	5.9	5.6	5.4
We are a team	7.1	6.6	6.2	6.2
Staff engagement	7.4	6.8	6.3	6.3
Morale	6.5	5.7	5.3	5.3

We also reviewed the Trust's scores in relation to two other indicators which, in our view, represent key performance indicators relating to workforce:

- Percentage of people that would recommend the Trust as a place to work
- Percentage of people happy with the standard of care Friends and Family would receive.

The Trust's performance remains amongst the worst organisations in the survey.

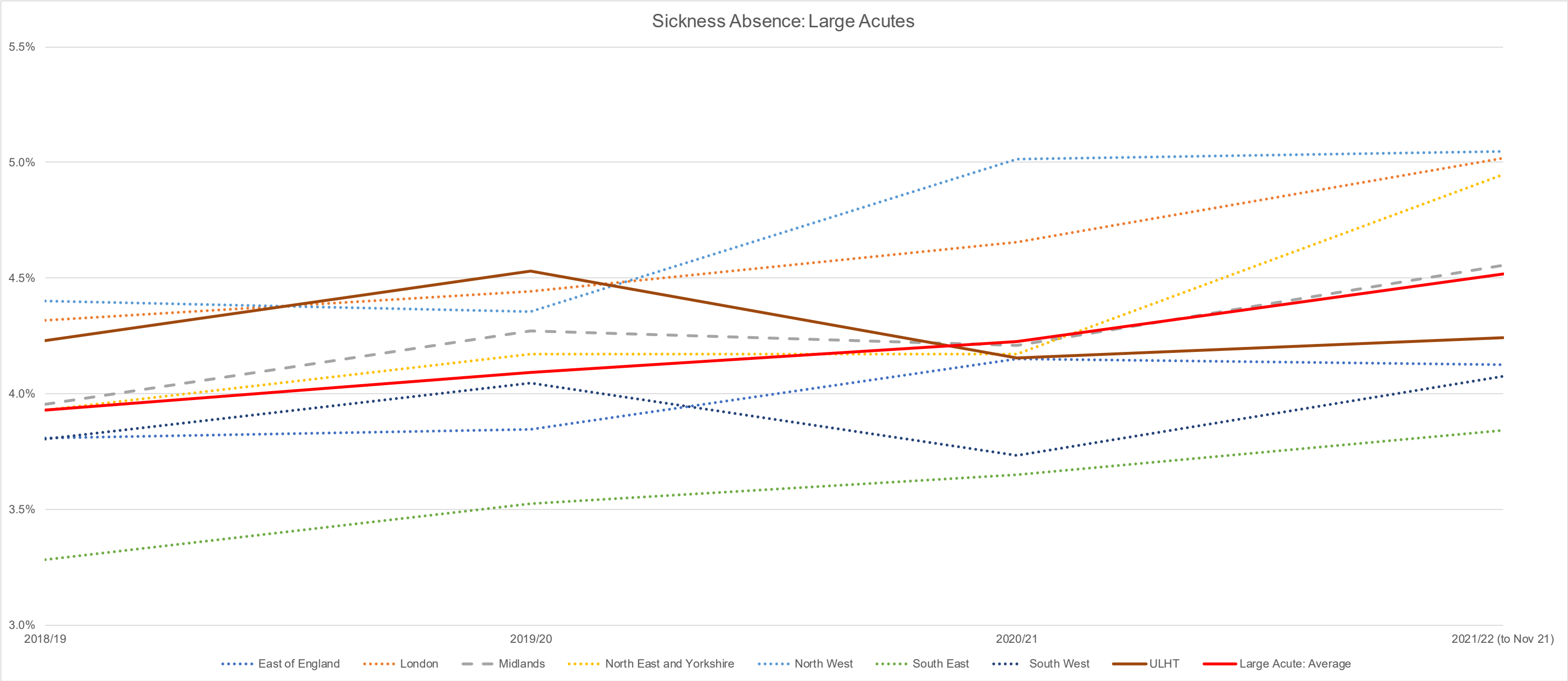
I would recommend my organisation as a place to work				
	Best	**Average**	**ULHT**	**Worst**
2017	78.1 %	60.8 %	44.1 %	42.8 %
2018	81.2 %	62.3 %	41.4 %	39.3 %
2019	81.1 %	63.0 %	45.1 %	36.1 %
2020	84.0 %	67.0 %	46.5 %	46.5 %
2021	77.6 %	58.4 %	38.5 %	38.5 %
Trend 2020 to 2021 - relative reduction	**(7.6)%**	**(12.8)%**	**(17.2)%**	**(17.2)%**
Trend 2020 to 2021 - absolute reduction	**(6.4)%**	**(8.6)%**	**(8.0)%**	**(8.0)%**

If a friend or relative needed treatment I would be happy with the standard of care provided by this organisation				
	Best	**Average**	**ULHT**	**Worst**
2017	89.5 %	70.7 %	50.6 %	46.4 %
2018	90.4 %	71.1 %	47.4 %	39.7 %
2019	90.5 %	706.6 %	49.3 %	39.8 %
2020	91.7 %	74.3 %	49.7 %	49.7 %
2021	89.5 %	66.9 %	43.6 %	43.6 %
Trend 2020 to 2021 - relative reduction	**(2.4)%**	**(10.0)%**	**(12.3)%**	**(12.3)%**
Trend 2020 to 2021 - absolute reduction	**(2.2)%**	**(7.4)%**	**(6.1)%**	**(6.1)%**

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Workforce indicators: sickness absence

We also obtained staff sickness data from NHS digital, where, as at 19 May 2022, the most recent data was up to November 2021. Our analysis shows the Trust has been able to reduce sickness to below average of all large acutes (and aligned to Midlands as a whole).



Partnerships

Our review of Board minutes and discussions with management confirms the Trust continues to work in close partnership with other health and social care organisations in the area. This is evidenced through the agreement of the 2021/22 outturn position and the 2022/23 plan agreed with the Integrated Care System. A key priority for the Trust continues to be the achievement of Teaching & University Hospital status which we have confirmed remains a strategic objective within the Integrated Improvement Plan that is regularly monitored by the Board.

Significant weakness in arrangements to improve economy, efficiency and effectiveness

Notwithstanding the above, as highlighted on page 24, we have identified significant weaknesses in arrangements against the Improving Economy, Efficiency and Effectiveness reporting criteria as a result of the continuation of matters relating to workforce (staffing indicators).

3. VFM arrangements

Identified significant weaknesses in arrangements and our recommendations

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

As part of our 2020/21 audit work, we identified the following significant weaknesses, and made recommendations for improvement in the Trust's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below, along with our view on the Trust's progress against the recommendations made, including whether the significant weakness is still relevant in the 2021/22 year.

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
The Trust is in Special Measures The outcome from the most recent Care Quality Commission (CQC) inspection in 2019 was 'requires improvement' and saw the CQC, under Section 31 of the Health and Social Care Act 2008, impose conditions on the registration of the Trust as a provider. Imposing conditions means that the Trust must manage regulated activity in a way which complies with the conditions set by the CQC. The conditions related to the emergency department at Pilgrim Hospital, Boston and the emergency department at Lincoln County Hospital. United Lincolnshire Hospitals NHS Trust was placed into financial special measures by NHS England and Improvement in 2017, when its deficit was £30.7m at 31 March 2017. The Trust ended the 2019/20 financial year with a deficit of £70.3m, excluding Provider Sustainability Funding and Financial Recovery Fund income but inclusive of £25.7m of support from the sustainability and transformation partnership for Lincolnshire. The Trust ended 2020/21 with a surplus for the year of £3.6m and a cumulative breakeven duty deficit position of £369m. Lincoln County Hospital and Pilgrim Hospital were last inspected by the CQC in January 2020 and rated 'Requires Improvement'. Grantham & District Hospital and County Hospital Louth were last inspected in February 2018, both rated 'Good'. At the end of 2020/21, the Trust's overall quality rating by the CQC remains as 'Requires Improvement'. Ratings will not change until the next formal inspection by the CQC. NHSE/I continues to meet with the Trust for Performance review meetings. The Trust is given a public score under the Single Oversight Framework (SOF), which is designed to help NHS providers attain, and maintain, CQC ratings of 'Good' or 'Outstanding'. Each trust is segmented into one of four categories, and for 2020/21, the Trust was rated "4", defined as: "Providers in special measures: there is actual or suspected breach of licence with very serious and/or complex issues. The Provider Regulation Committee [of NHSE/I] has agreed it meets the criteria to go into special measures." The public segment rating of "4" is changed only once providers have been informed by their regional lead and there is a move between segments. We recognise the impact of Covid-19 during the year, but the Trust has remained in financial and quality special measures throughout 2020/21 and there is insufficient evidence to demonstrate the Trust has made sufficient progress for conditions to be lifted. As a result, there is a significant weakness in the Trust's arrangements that exposes it to a risk of significant financial loss and can be reasonably expected to lead to a significant impact on the quality or effectiveness of service and the Trust's reputation.	Financial Sustainability Improving the 3Es	Within the context of revisions to NHS financing and the 2021/22 Planning Guidance, the Trust should ensure that it delivers the action plans that have been developed by management, and that monitoring and reporting, challenge and scrutiny and escalation arrangements are in place to drive the required improvements for patients and sustain the improvements that are made.	The Trust's SOF position has improved from "4" to "3" and whilst the Trust is not within NHSE/I's Recovery Support Programme, the Lincolnshire Integrated Care System is – recognising there is a wider system level issue regarding funding. The latest CQC report on the Trust, published in February 2022, increased its ratings for being effective and well-led from 'Requires Improvement' to 'Good'. The rating around safety and responsiveness remained as 'Requires Improvement' and the rating for caring remained as 'Good'. As a result of improvements seen, the CQC recommended that the Trust be moved out of the Recovery Support Programme and NHSE/I removed the Trust from special measures/ Recovery Support Programme with immediate effect.	**CLEARED** As a result, there have been demonstrable improvements in arrangements leading to the lifting of special measures. Note. however, there is also a specific significant weakness below re financial sustainability.

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

<table>
<tr><th>Previously identified significant weakness in arrangements</th><th>Reporting criteria</th><th>Recommendation for improvement</th><th>Our views on the actions taken to date</th><th>Overall conclusions</th></tr>
<tr><td>Capital Backlog and Fire Safety Notices

In 2017, United Lincolnshire Hospitals NHS Trust (ULHT) was handed two fire enforcement notices for the Lincoln and Boston Pilgrim sites and a fire action plan for Grantham Hospital. ULHT are in the process of completely renovating Lincoln County Hospital as part of a £46m major refurbishment programme to improve fire safety.

The Trust began 2020/21 with a capital expenditure backlog of £236m. This includes £102m which is either required to meet statutory obligations, or mandatory to be compliant with relevant laws and regulations. Investment in NHS capital funding is critical to safety, care quality and efficient use of the NHS estate, equipment and wider resources. This has become increasingly clear during the pandemic when trusts with old and outdated estates, and equipment, found it more difficult to reconfigure old sites to accommodate social distancing and infection, prevention and control.

NHS trusts are given a “Capital Resource Limit” (CRL), which means NHS trusts cannot incur capital expenditure above that limit and it is managed, in part, through the external finance limit of the Department of Health and Social Care. Note 36 of the audited 2020/21 financial statements, shows the CRL for 2020/21 was £44m and the Trust incurred relevant capital expenditure of £42m.

Within the confines of the CRL, the Trust continues to make progress with capital spending and backlog maintenance, which eventually saw the lifting of Fire Enforcement Notices in 2021/22. The capital backlog as at the end of 2020/21 was £230m, down from £236m in the previous year, but remains clearly significant.

Internal Audit issued a report on Estates Management in May 2021, that concluded the Trust’s arrangements provide ‘No assurance’ to the Board.

Overall, the long-standing and ongoing issues regarding the scale of the Trust’s capital backlog, coupled with the Internal Audit review into estate management indicates that there is a significant weakness in the Trust's arrangements that can be reasonably expected to lead to a significant impact on the quality or effectiveness of service and the Trust’s reputation.</td><td>Financial Sustainability</td><td>1. The Audit and Risk Committee should continue to monitor progress against the Estates Management action plan, which we would suggest is routinely reported by the Head of Estates until all critical actions are implemented. Consideration should also be given to real-time reporting as each action falls due, to prevent slippage on progress.

2. On completion of the actions raised by Internal Audit into Estates Management, which includes plans to improve the accuracy of planned, preventative maintenance, the Audit and Risk Committee should seek assurance over the accuracy of the capital backlog maintenance.

3. The Trust should engage with the STP to ensure its capital plan is consistent with system-wide discussions on prioritisation and deliver its capital programme</td><td>The Trust regularly monitor’s progress against capital expenditure through FPEC and the Fire Safety Risk is embedded into the Board Assurance Framework, with the Fire Safety Notices lifted in July 2021.

The Trust had a capital programme of £45.7m for 2021/22 and actual capital expenditure of £45.7m was incurred Our testing of additions in the financial statement audit did not identify any issues. The Delivery of 2021/22 Capital Programme will continue to ensure progress against remaining backlog of critical infrastructure.

The Trust continues to the £200m+ backlog, but the Trust has identified that future years will at most tackle £20m of backlog in any given year. The Trust’s Capital Delivery Group will continue to monitor the delivery of key capital programmes and ensure robust programme governance.</td><td>ONGOING

As a result, in our view, there is evidence of improvement, but the risks posed by a £200m+ capital backlog remain significant and therefore the weakness in arrangements remains relevant for 2021/22.</td></tr>
</table>

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

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<tr><td>Workforce: agency spend & staffing indicators

The NHS Staff Survey was considered by the People and Organisational Development Committee and then Board in April 2021, with the overall theme scores showing the Trust predominantly either below average or in line with the worst performing trusts across most areas, including morale and staff engagement. The Trust’s main response to the survey results is to commence a Culture and Leadership Programme using a framework used across many other trusts to address the issue of culture and consistency of leadership.

Staff sickness data from NHS Digital for the period 2018 to December 2020 (the most up-to-date data set as at date of reporting) shows the Trust has a higher-than-average sickness rate which affects the need for agency and bank staff. Total agency costs for 2020/21 were presented to the May Board via the Integrated Performance Report, being £42.05m for the year, compared to £44m in 2019/20 where the agency ceiling was £21m. This figure is included within the ‘other’ costs shown in the annual report.

The Trust is being supported by NHS England and Improvement (NHSE/I) nursing recruitment programme, with the March 2021 Board being informed that 126 job offers had been made to international nurse recruits, against a target of 200 recruits by October 2021 and therefore there remains a shortfall in staff numbers that still needs to be addressed by further action.

Covid-19 has disrupted organisational development and staff engagement plans across the country. The Trust has already begun to initiate a Culture and Leadership Programme and is undertaking regular pulse surveys to monitor improvements in staff engagement, however actions taken by the Trust to improve workforce arrangements have not yet demonstrated sufficient traction to deliver sustained levels of improvement, including:
• NHS Staff Survey results show the Trust is performing poorly across a range of areas, including morale and staff engagement;
• the Trust remains heavily reliant on agency and bank staff, although data on staff turnover indicates there is an underling workforce shortage that is contributing to the current position; and

Cumulatively, this exposes the Trust to a significant risk to the quality and effectiveness of service as well as a risk of increased expenditure on agency costs.</td><td>Financial Sustainability

Improving the 3Es</td><td>1. The Trust should ensure that progress with the Culture and Leadership Programme and pulse surveys are regularly reported to the People and Organisational Development Committee and through to Board to monitor staff engagement and morale.

2. The Trust should ensure the Culture and Leadership Programme demonstrates tangible and measurable improvements and that the People and Organisation Development Committee demonstrably challenge and scrutinise performance.

3. The Trust should work with system partners to tackle the recruitment deficit and manage agency costs.</td><td>The Trust has taken action to improve workforce indicators, where, for example:
• Staff sickness rates have improved, with rates now closer to the average for all large acutes, in some months below
• Average permanent FTE’s have increased by over 300 from 2020/21, mainly through international recruitment.

However:
• Average temporary staff numbers are static, but the cost of this has increased from £42m to £46m
• NHS staff survey results continue to place the Trust either as the worst, or below average in all domains, including:
    • Recommendation as a place to work: 38.5% (vs average of 58.4%) being the worst in the survey
    • Friends and Family Text: 43.6% (average = 66.9%) being the worst in the survey</td><td>ONGOING

Overall, whilst actions have been taken to seek to address deep-rooted workforce issues, there is not yet sufficient evidence of a sustained level of improvement to clear the significant weakness reported in 2020/21.</td></tr>
</table>

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
The Trust's financial sustainability In March 2020, pre Covid-19, the Trust submitted a 2020/21 financial plan with a deficit of £73m against a £53m control total. Following the onset of the Covid-19 pandemic, the original NHS Planning Guidance 2020/21 was suspended and a new financial regime was implemented. Systems were expected to achieve financial balance within this envelope and individual organisations were able to deliver surplus or deficit positions by mutual agreement within the system. However, NHS trusts were still required to meet their statutory break-even duty. The audited financial statements show an Operating Surplus for 2020/21 of £9m, compared to a £34m deficit in 2019/20. The Trust's Annual Report, explains the Trust's surplus, delivered in-line with the system envelope, was inclusive of £72m of planned system support. Despite the performance against the temporary financial regime described above, the Trust's cumulative break-even position, as set out in Note 38 of the financial statements, is a £369m deficit. As the Trust itself reports in its 2020/21 Annual Governance Statement, the Trust has been in Financial Special Measures since September 2017 and continues to face significant financial challenges. The Trust agreed a Financial Recovery Plan with NHSE/I, but this has been materially impacted by Covid-19 with most elements paused during 2020/21. No future trajectory has to date been agreed to return the Trust to breakeven. The Trust's financial sustainability is dependent on the resolution of long-standing issues in workforce planning and in implementing the outcomes of the public consultation on the future configuration of Lincolnshire health services initiated in March 2019. It is also dependent on the national funding structures yet to be determined. These unresolved and ongoing issues have not been addressed by the Trust and this continues to prevent it from improving arrangements to secure financial sustainability during 2020/21. Overall, therefore, we have concluded that there is an ongoing significant weakness in arrangements to secure financial sustainability.	Financial Sustainability	1. On obtaining clarity over the financial regime for the remainder of 2021/22, the Trust must agree a realistic revised Financial Recovery Plan with NHSI, and monitor its progress in achieving that plan, including addressing the underlying issues the Trust faces in relation to workforce and site configuration planning.	The Trust's financial outturn for 2020/21 does not indicate any significant VFM issues, albeit within the context of the funding regime for the year. The Trust's financial statements show an operating deficit of £0.5m (PY = £8.8m surplus) and overall deficit for the year of £7.2m (PY = £3.6m surplus), against gross expenditure of £681m. This equates to a £1.98m surplus against the control total. The Income & Expenditure Reserve is, however, [minus] -£464m. In 2022/23 the NHS will move to system financial envelopes. This will result in a cost based block contract arrangement for the Trust with some non-recurrent support for Elective Recovery and Covid built into the envelope. The Trust's draft financial plan for 2022/23, submitted in March 2022, includes the requirement for a £25m savings target to achieve breakeven. The Trust delivered £12m of savings in 2021/22, therefore the move to £25m is a significant step-up. Historic performance against the breakeven duty remains a deficit of £367m.	**ONGOING** As a result, in our view, there is evidence of improvement in the Trust's arrangements to improve financial sustainability, but not yet enough to demonstrate sustainable improvement in the underlying financial position to remove the significant weakness in arrangements reported in 2020/21.

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
Judicial review of the Trust’s downgrading of Grantham Hospital A&E to an urgent care centre During the first Covid wave, the Trust designated Grantham and District Hospital a "Green Site". This meant that Covid patients were not treated at the hospital, which allowed treatments such as elective surgery and chemotherapy to occur on the site with reduced risk of Covid infection. All patients treated at the hospital were tested for Covid-19, and the A&E department was replaced with a walk-in Urgent Treatment Centre. A member of the public took the decision to judicial review. The original case was made on four grounds and the claimant was only given permission to proceed in respect of two of these: one being a failure to consult; and the other that the decision was either irrational, for an improper purpose or insufficiently reasoned. The judicial review considered the impact of the Covid-19 pandemic on the Trust with the final judgement upheld one of the grounds, being that there was no clear evidence that the Trust was unable to consult and it could have made suitable arrangements to secure the meaningful participation of service users. The judicial review found the Trust breached both section 242 (1B) (b) and (c) of the National Health Service Act 2006 Act. Section 242 is one of several provisions in the 2006 Act which place obligations on NHS bodies to make arrangements to secure the involvement of service users in decision-making about services. This is indicative of a significant weakness in arrangements because it: • leads to (or could reasonably be expected to lead to) significant impact on the Trust’s reputation; • leads to (or could reasonably be expected to lead to) unlawful actions.	Governance	1. The Trust has already taken steps to improve public involvement, but we recommend the Audit and Risk Committee receives direct assurance that arrangements have been updated to a sufficient standard to prevent a recurrence of a failure to lawfully publicly consult.	The Board were fully appraised of the situation and, in our view, the issue in the prior year was shown to be restricted to a single event and not prevalent in the Trust’s arrangements for consultation. No incidences of unlawful action have been identified in 2021/22.	**CLEARED** In our view, there is no longer a significant weakness in arrangements.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provide auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- Issue a report in the public interest
- Make a referral to the Secretary of State
- Make a written recommendation to the Trust which must be responded to publicly.

Except for the matter below, we have not exercised any of these statutory reporting powers.

Section 30 referral

On 7 June, we made a referral to the Secretary of State for Health and Social Care under Section 30 of the Local Audit and Accountability Act 2014.

Taking into account the 'Statutory breakeven duty: a guide for NHS trusts' issued by NHSI in April 2018 we have reason to believe that United Lincolnshire Hospitals NHS Trust has taken a course of action which has breached the Trust's breakeven duty for the three-year period ending 31 March 2022 (requiring a referral under section 30(1)(b) of the 2014 Act).

The Trust's financial performance during the three-year period 2019/20 to 2021/22 is set out below:

Breakeven Duty (£'000)	2019/20 Actual	2020/21 Actual	2021/22 Actual
In-year financial performance	(41,876)	3,149	2,665
Cumulative deficit at year end	(372,350)	(369,201)	(366,536)

The Trust's expenditure has exceeded its income for the three-year period ending 31 March 2022 by £36,062k and this has resulted in a cumulative deficit at 31 March 2022 of £366,536k.

As United Lincolnshire Hospitals NHS Trust's expenditure has exceeded its income for the three-year period ending 31 March 2022, we have a duty to make a referral under Section 30(1)(b) of the 2014 Act.

Annual Governance Statement

We are also required to report if, in our opinion, the governance statement does not comply with relevant guidance or is inconsistent with our knowledge and understanding of the Trust. We did not identify any matters to report in this regard.

Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

4. Other reporting responsibilities and our fees

Fees for work as the Trust's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit & Risk Committee. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:.

Area of work	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£137,765
Additional fees in respect of new financial ledger implementation	£2,000
Total fees	**£139,765**

Fees for other work

We confirm that we have not undertaken any non-audit services for the Trust in the year.

Mark Surridge

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