This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the health sector and the audits that we undertake.

The public sector audit specialists who transferred from the Audit Commission form part of EY’s national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY’s UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the health sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to new and existing NHS bodies.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.
Government and economic news

EY Item Club spring 2015 forecast

In its latest quarterly forecast the EY Item Club forecasts strong economic performance with GDP growth of 2.8% this year, rising to 3% in 2016. The Consumer Prices Index (CPI) Inflation is expected to average 0.1% for 2015, but expected to rise above 1% this winter, paving the way for possible base rate rises in spring 2016. Consumption is forecast to grow by 2.8% this year (mainly due to a real income increase of 3.7%) and strong growth over the medium term supported by buoyant incomes rather than borrowing. An additional driver for growth is the fall in the Euro against the pound. Business surveys indicate that the effect of this exchange rate move on export competitiveness has been countered by the strength of the European market.

The report highlights that its forecasts are far more positive than the Office of Budget Responsibility (OBR) which it accepts needs to be cautious, seeing room for expansion in the consumer and housing markets without significant adverse effect on household debt or house prices. Additionally long term output growth prospects are better than indicated by OBR projections. The forecast suggests that the outlook for the government post-election will be more positive than official statistics.

Manchester devolution

On the 27 February 2015, a memorandum of understanding was signed between Greater Manchester’s 10 local authorities, 12 NHS clinical commissioning groups and 15 NHS providers, as well as NHS England chief executive Simon Stevens and Chancellor George Osborne. This memorandum builds on the devolution settlement for Manchester which was signed in November 2014, and proposed the devolution of powers to Greater Manchester in various areas including transport, planning and housing.

NHS England worked with the Manchester bodies to develop a plan for further joined up and integrated health and social care. The next stage will be the development of a roadmap, followed by production of a business plan. Due for publication in October, the outline business plan will outline the scope for possible savings through integration; as well as setting out the capital investment that will be needed to deliver the proposed shift from acute care to the primary and community sectors.

Under the plan, a new joint decision-making process for all £6bn of health and social care spending will be developed. A Greater Manchester Strategic Health and Social Care Partnership Board will be set up, and will oversee the development of the health and care system. A joint commissioning board will be responsible for financial plans and budget proposals for the sizeable budget, which represents approximately a quarter of all public spending in the region.

George Osborne has said that this reform was “exactly what we want to see more of in our health care”.

Greater Manchester Combined Authority chair Lord Peter Smith confirmed his commitment to working with NHS colleagues in the city: “By ensuring that decisions about health for Greater Manchester are taken in Greater Manchester, we can ensure we have a system specifically tailored to the needs of people in our area.”

This radical change follows on from the Community Budget programme, of which Manchester was one of the four pilots. This programme was intended to pool funds to improve the effectiveness of public spending across the city’s 10 councils. An analysis from EY commissioned by the Local Government Association concluded that more than £4bn could be saved every year if all areas adopted a Community Budget approach and were able to cut the unnecessary waste, duplication and red tape. Of these, it was estimated 80% would come from the budgets of central government departments and agencies.
How is the NHS performing?

In its latest quarterly update on the performance of the NHS the King’s Fund paints a concerning picture of NHS finances. Its survey (carried out in February and March 2015) focuses on performance in 2014/15 and expectations for 2015/16. Amongst its main points in respect of 2015/16 are:

- Nearly 70 per cent of providers and 40 per cent of commissioners are concerned about staying within budget in 2015/16, and more than 90 per cent of providers and 85 per cent of commissioners are concerned about the overall financial state of their local health economies.

- The NHS Forward View has proposed a continuation of the need to generate further productivity gains, with built in efficiency targets of 2 to 3 per cent. There is pessimism among finance leads in both providers and commissioners, with a significant majority of the view that the risk of not achieving this level was High or Very High.

- Worryingly, there is a significant difference between commissioners’ and providers’ expectations in respect of demand. Whilst most trust finance directors are planning for increases in both elective and emergency admissions, most commissioners surveyed expected little or no increase in elective admissions and a fall in emergency activity.

The report goes on to states the NHS is facing a bigger financial challenge in 2015/16 than over the past few years. Whilst it believes there is scope for more cost-effective use of the NHS budget, realising this will take time, upfront funding for transformation, and measures to support change and value for money.

Agency staff costs

Simon Stevens, NHS Chief Executive, has been leading calls recently for the NHS to dramatically cut the amount of money spent on agency staff. Recently released figures show that during 2014/15 NHS Foundation Trusts spent around £1.8 billion on agency staff.

Trusts up and down the country have struggled to maintain the required staffing levels and retain good staff. This has become harder over the last year with various national reviews increasing required staff levels on wards.

The Chief Executive of the Royal College of Nursing, Dr Peter Carter, goes further and believes the agency spending is a result of ‘very poor workforce planning’. When budget savings are required one of the easiest ways to reduce costs is to keep vacancies unfilled or cut back on student recruitment.

An organisation like the NHS should be able to take longer-term views and continue to plan ahead as we will always require high levels of staff. NHS Trusts are in the unfortunate position where agencies hold the majority of the power. For geographical reasons trusts will be limited in which agencies they can use. Additionally, there is inevitably a premium on agency services as demand is currently exceeding supply.
Accounting, auditing and governance

2015-16 work programme and scales of fees
Public Sector Audit Appointments Ltd (PSAA) has now confirmed the work programme and scale fees for the audit of the accounts for 2015-16 for local government, fire, police and health bodies.

For CCGs and NHS Trusts there are no changes to the overall work programme, with scale fees showing a reduction of 25% to the fees applicable for 2014-15. The current expectation is that these fee reductions will apply until the end of the audit contracts (subject to annual review).

The current contracts with audit suppliers run until 2017, with a possible extension for up to three years. Under its responsibility to manage the audit contracts, PSAA is required to consult on and set fees for 2016-17.

In addition to the core accounts audit work, auditors have a responsibility to satisfy themselves about an audited body’s arrangements to secure economy, efficiency and effectiveness in its use of resources. Fees to cover the costs of any special investigations, (e.g., arising from disclosures under the Public Interest Disclosure Act 1998) are charged as a variation to the scale fee.

The scale audit fees for individual NHS bodies and the work programme are published on the PSAA website, with the aim of supporting transparency and helping audited bodies compare their fees with those of similar bodies. They are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

It is a matter for the auditor to decide the work necessary to complete the audit. Where an auditor considers more or less work is required than is represented in the scale fee, they are required under the audit contracts to seek approval from PSAA for a variation to the scale fee, and to agree the amount of this variation with the audited body. PSAA also consider the reasonableness of the explanations provided before agreeing to any variation to the scale fee.

Thought leadership – board effectiveness
EY has worked with The Investment Association to produce a thought leadership report ‘Board effectiveness – continuing the journey’. The report is based on debates on board effectiveness held as a series of individual meetings and roundtables with leading chairmen, board directors and senior investors. Whilst the report recognises that all boards are different, it aims to identify leading practice and point to new ideas for boards to improve and demonstrate their effectiveness. It addresses board effectiveness across seven themes:

▶ Role of the chairman
▶ The role of non-executive directors (NEDs)
▶ Progress on diversity
▶ Board succession and the work of the nomination committee
▶ The purpose and impact of board evaluations
▶ Information flows to the board
▶ The role of investors

To encourage discussion between management, NEDs and stakeholders, the report includes a checklist of questions under each of the seven themes.
Information Commissioner to audit the NHS – Mandatory data protection audits introduced in the NHS

The Information Commissioner has been granted legal powers to mandate NHS provider organisations to demonstrate compliance with data protection legislation. The changes took effect in February 2015 as an amendment of section 41 (a) of the Data Protection Act 1998 which previously applied to Central Government only.

Under these new powers the Information Commissioner may carry out audits across NHS organisations to assess data protection compliance across a number of areas including lawful processing and sharing of patient data, data security, records management, staff training and awareness.

The changes can be seen as an important step in enforcing data protection compliance and accountability across the healthcare sector, which is considered to process vast volumes of sensitive personal data.

Regrettably, the NHS has previously been frequently in the spotlight due to breaches of data privacy and patient confidentiality. The highest ever fine (£325,000) issued for breaches of data privacy in the UK was imposed on an NHS Trust after it failed to protect the security of patient and personnel data. To date, the Information Commissioner has issued monetary penalties totalling £1.3mn to NHS organisations.

Significance and impact

The introduction of mandatory data protection audits is being introduced at a time when the NHS is also undergoing significant transformation to align with Government driven strategies to digitise and modernise NHS operations and the way it interact with patients. The Government has set 2018 as the target for the delivery of paperless hospitals and interoperable patient records.

Lack of embedding data protection controls into these emerging digital care solutions could significantly impact the ability of the NHS to achieve this target, in a data protection compliant manner.

Additionally, a number of other initiatives are underway to integrate services across health and social care, with a view to delivering services more tailored to patient needs and enabling the implementation of a ‘savings’ agenda. Concerns around data protection and data security have recently had an impact on the timely delivery of national initiatives. This was evident in the case of the care. Data programme that was delayed mainly due to the lack of an effective data protection awareness campaign. The lack of a campaign left patients ill-informed of the changes being implemented and lacking awareness and understanding of their rights in relation to access to and sharing of their data.

In the near future, the upcoming EU General Data Protection Regulation (GDPR) is likely to introduce a further stricter regime around the processing of personal data with key areas affecting the healthcare sector, such as requirements around patient consent and privacy-by-design technologies and processes. Significantly the EU GDPR will introduce new sanctions that could result in fines as high as 5% of an organisation’s worldwide turnover or €100mn.

It is therefore of paramount importance that the healthcare sector can respond to these challenges adequately and avoid potential negative impacts that could affect its reputation, finances and overall patient trust.
New regulations and responsibilities for CQC

In April 2015 significant changes to how the Care Quality Commission (CQC) regulates health and adult social care providers and services came into effect. Providers in England will be required to comply with new regulations called the ‘fundamental standards’. These standards are ones that everybody has a right expect when they receive care and are part of changes to the law recommended by the Francis Inquiry into care at Mid Staffordshire NHS Foundation Trust. There are thirteen standards covering the following areas:

- Patient care
- Governance
- Safety
- Complaints
- Openness

Included within the above are requirements for providers to be open about mistakes when they happen (known as the ‘duty of candour’) and for making sure directors and their equivalents are ‘fit and proper’. The duty of candour is intended to ensure that providers are open and transparent with people who use services and other ‘relevant persons’ in relation to care and treatment. There are specific requirements that providers must follow when things go wrong with care and treatment, including informing people about the incident, providing support and truthful information, and an apology when things go wrong. The ‘fit and proper’ regulation aims to ensure that people who have director level responsibility for the quality and safety of care, and for meeting the fundamental standards are fit and proper to carry out the role. This includes ensuring that they are appropriately qualified and of ‘good character’, both on initial appointment and on an ongoing basis. Additionally, providers are required to prominently display their ratings on their websites, at premises, public entrances and waiting areas of care services.

NHS England – New care models

In January 2015 as part of delivering the Five Year Forward View the NHS invited various organisations and partnerships to become ‘Vanguard’ sites. Of the 260 organisations that expressed an interest 29 were chosen at the end of March 2015. Each Vanguard site was given the opportunity to take a lead on the development of new care models in their respective areas.

At the end of May 2015 the next phase of the development was announced, with the aim of developing innovative ways of delivering high quality care for acute patients whilst increasing the viability of local hospitals. This involves creating new shared arrangements between clinical specialists from different hospitals and sharing back-office management and administration functions. Led by Monitor, NHS England, and NHS Trust Development Authority, the main focus of the initiative will be to support acute providers to develop new arrangements that can be replicated nationwide, and for the new models to improve quality, and efficiency.

Applications from acute providers should be submitted by the end of July 2015 and will be supported by the £200mn Transformation Fund.
2015 Heatwave plan for England

On 20 May 2015 Public Health England released their 2015 Heatwave plan for England with the aim of ‘protecting health and reducing harm from severe heat and heatwaves’. Since the heatwave in 2003 that caused devastation across Europe the plan has been produced and published annually. Each year it aims to build on previous experience and continue to develop improvements. It is aimed at the following:

► NHS, local authorities, social care, and other public agencies
► Professionals working with people at risk
► Individuals, local communities and voluntary groups.

The key messages in this year’s plan are as follows:

► All local organisations should consider this document and satisfy themselves that the suggested actions and heat-health watch alerts are understood across the system, and that local plans are adapted as appropriate to the local context.

► NHS and local authority commissioners (together with multi-agency Local Resilience Forums and Local Health Resilience Partnerships) should satisfy themselves that:
  ► The distribution of heat-health watch alerts will reach those that need to take action, especially in light of recent structural changes.
  ► Providers and stakeholders take appropriate action according to the heat-health watch alert level in place and their professional judgements.

It is important to have knowledge of the plan to ensure that arrangements are in place so that NHS Trusts can appropriately respond to changes in rating and potential increases in patients requiring care.
Key questions for the audit committee

What questions should the Audit Committee be asking itself?

► Have we fully considered opportunities for integration with other local services and whether this could offer improvements to service delivery as well as cost savings? How robust are the trust’s forecasts for elective and emergency admissions and how do they compare with those of commissioners?

► Are the trust’s workforce planning policy and arrangements fit for purpose and do they ensure that agency staffing costs are kept to a minimum?

► Is the audit committee aware of the 2015-16 scale fee/work programme and is it confident that arrangements ensure that accounts provided for audit are materially correct and fully supported, and that it has sufficient resources to support the audit process?

► Have we considered the EY report ‘Board effectiveness – continuing the journey’ and whether it can support the improvement and effectiveness of our Committee?

► Has the trust considered the implications arising as a result of the changes in the Data Protection Act?

► Does the trust have an adequate level of understanding, control and assurance across data protection and security risks and controls across their organisation?

► Has the trust identified and assessed any new risks or vulnerabilities to which they will become exposed as a result of information sharing and digitisation initiatives?

► Has the trust reviewed its compliance with the Fundamental Standards required by CQC?

► Has the trust thought about making an application in respect of a new health model?

► Is the trust ready for any potential heatwaves this summer?
Find out more

**EY Item Club spring 2015 forecast**

**Manchester devolution**
For a copy of the Memorandum of Understanding for Greater Manchester Health and Social Care devolution, see http://www.AGMA.gov.uk/cms_media/files/mou.pdf

**How is the NHS performing?**
For the King’s Fund report, see http://qmr.kingsfund.org.uk/2015/15/survey

**Agency staff costs**
More details about the NHS and agency staff costs can be found at http://www.bbc.co.uk/news/health-32950969 and http://www.bbc.co.uk/news/health-32961240

**2015-16 work programme and scales of fees**

**Thought leadership — board effectiveness**

**Information Commissioner to audit the NHS — Mandatory data protection audits introduced in the NHS**
For more information, please visit the Information Commissioner’s Office at https://ico.org.uk/, or contact Nicola Hermansson, nhermansson@uk.ey.com, or Thanas Loli, tloli@uk.ey.com

**New regulations and responsibilities for CQC**
Information about the CQC’s new responsibilities is detailed at http://www.cqc.org.uk/content/new-regulations-and-responsibilities-cqc

**NHS England — New care models**
News of the NHS’ launch of new collaboration to sustain and improve local hospitals can be found at https://www.england.nhs.uk/2015/05/20/improving-local-hospitals

**2015 Heatwave plan for England**
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