



# Auditor's Annual Report 2023/24

**Nottingham University Hospitals NHS Trust**

—

September 2024

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## KEY CONTACTS

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This report is addressed to Nottingham University Hospitals NHS Trust (the Trust). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.



# 01 Executive Summary

# Executive Summary

## Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023/24 audit of Nottingham University Hospitals NHS Trust (‘the Trust’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

## Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



**Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).



**Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.



**Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



**Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

## Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities:

<b>Accounts</b>	<p>We issued an unqualified opinion on the Trust’s accounts on 27 June 2024. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on pages 7-8.</p>
<b>Annual report</b>	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the Department of Health and Social Care requirements.</p>
<b>Value for money</b>	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have raised two significant weaknesses and associated recommendations in relation to financial sustainability and governance, as set out on pages 16, 21 and 25.</p>
<b>Other reporting</b>	<p>We have made a section 30 referral to the Secretary of State given that the Trust breached its breakeven duty for 2023/24.</p> <p>We did not consider it necessary to issue any other reports in the public interest.</p>



# 02 Audit of the Financial Statements

# Audit of the financial statements

## **KPMG provides an independent opinion on whether the Trust's financial statements:**

- Give a true and fair view of the state of the Trust's affairs as 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 NHS England with the consent of the Secretary of State in February 2024 as being relevant to NHS Trusts and included in the Department of Health and Social Care Group Accounting Manual 2023/24; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006 (as amended).

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Audit opinion on the financial statements**

We have **issued an unqualified opinion on the Trust's financial 2023/24 statements** before 28 June 2024.

The full opinion is included in the Trust's Annual Report and Accounts for 2023/24 which can be obtained from the Trust's website.

Further information on our audit of the financial statements is set out overleaf.

# Audit of the financial statements

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Procedures undertaken	Findings
<p><b><i>Fraudulent expenditure recognition - completeness</i></b></p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk over non-pay expenditure, excluding depreciation.</p>	<p>We performed the following procedures in order to respond to the significant risk identified:</p> <ul style="list-style-type: none"> <li>– We evaluated the design and implementation of controls for management review of manual expenditure accruals;</li> <li>– We inspected a sample of expenditure invoices posted in the period after 31 March 2024 to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;</li> <li>– We inspected a sample of payments in April and May 2024 and traced the associated expenditure to the ledger to ensure they were accrued in the appropriate financial year; and</li> <li>– We inspected journals posted as part of the year end close procedures that impact the level of expenditure recorded in 2023-24 in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence.</li> </ul>	<p>We did not identify any material misstatements relating to this risk.</p>
<p><b><i>Management override of controls</i></b></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We carried out the following procedures:</p> <ul style="list-style-type: none"> <li>– Assessed accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicated a possible bias;</li> <li>– In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments;</li> <li>– Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;</li> <li>– Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the component’s normal course of business, or are otherwise unusual; and</li> <li>– We analysed all journals through the year using data and analytics and focused our testing on those with a higher risk, such as journals impacting expenditure recognition posted during the final close down.</li> </ul>	<p>We did not identify any material misstatements relating to this risk.</p>

# Audit of the financial statements

Risk	Procedures undertaken	Findings
<p><b>Valuation of land and buildings</b></p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The Trust engaged a valuer to undertake a full valuation for the year ended 31 March 2024. The assessment of the fair value of the assets is a key estimate in the financial statements.</p>	<p>We performed the following procedures in order to respond to the significant risk identified:</p> <ul style="list-style-type: none"> <li>– We critically assessed the independence, objectivity and expertise of Gerald Eve, the valuers used in developing the valuation of the Trust’s properties at 31 March 2024;</li> <li>– We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Group Accounting Manual;</li> <li>– We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances are identified;</li> <li>– We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;</li> <li>– We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement;</li> <li>– We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM;</li> <li>– We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the GAM; and</li> <li>– Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.</li> </ul>	<p>We did not identify any material misstatements relating to this risk.</p>

# 03 Value for Money

# Value for Money

## Introduction

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or ‘value for money’. We consider whether there are sufficient arrangements in place for the Trust for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



**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

## Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor’s Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust.

## Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
2023/24 Commentary page reference	12-17	18-22	23-24
2023/24 Identified risks of significant weakness?	Yes	Yes	Yes
2023/24 Actual significant weakness identified?	Yes	Yes	No
2022-23 Findings	No significant weakness identified	Significant weakness identified	Significant weakness identified
Direction of travel	↓	↔	↑

# Value for Money

## NATIONAL CONTEXT

### *Financial performance*

The 2023/24 financial year saw a significant increase in the level of financial pressures facing the NHS sector. This followed the end of Covid-19 related financing arrangements. The sector has faced cost pressures from a range of factors, most significantly the impacts of inflation felt during the year and the costs of industrial action.

At the end of January 2024 NHS England forecast that the NHS would record an overspend of £1.1 billion against its agreed budgets. This came after additional funding had been made available earlier in the year to support with the costs of industrial action.

### *Operational performance*

In January 2023 the Government announced five pledges for 2023, including reducing NHS waiting lists and the time people wait for procedures. Waiting lists had grown significantly during the Covid-19 pandemic as elective activity was postponed in order to prioritise the treatment of Covid patients and ensure safe working.

According to the Health Foundation the NHS waiting list had grown from 6.2 million patients at the beginning of 2022 to 7.2 million in January 2023. There had also been a significant increase in the number of patients with long waits. At the end of 2023 there remained 355,000 patients that had been waiting over a year for treatment. Income arrangements for the acute sector were revised in year to reimburse providers for elective activity based on the actual number of patients treated.

### *System working*

The Health and Care Act 2022 formally established integrated care systems (ICSs), 42 partnerships within local geographies to promote closer working between the organisations responsible for healthcare delivery. Integrated Care Boards were formed on 1 July 2022, taking over commissioning responsibility from Clinical Commissioning Groups.

In their first full year of operation ICSs have continued to work to develop and embed governance arrangements both within the ICBs themselves and as systems.

## LOCAL CONTEXT

Nottingham University Hospitals NHS Trust (NUH) is one of England's largest acute teaching trusts, operating across three sites, Nottingham City Hospital (City), Queen's Medical Centre (QMC) and Ropewalk House. The Trust employs more than 18,000 staff. It reports through the Nottingham and Nottinghamshire ICS.

NUH is one of a number of trusts receiving support through the Government's New Hospital Programme, which will support the progression of "Tomorrow's NUH", a programme to redevelop both City and QMC, creating improved environments to enable the Trust to respond to changes in health needs and medical advances, thus remaining fit for the future.

### *Financial performance*

The Trust is continuing to operate in a challenging financial environment which led to a significant underperformance against its financial plan for 2023/24, with a deficit outturn of £71m compared to a breakeven plan.

As noted later in this report, the 2024/25 financial plan is again challenging, being underpinned by an efficiency requirement which represents a significant step-up in delivery compared to previous years. The Trust has developed a recovery plan, shared with key stakeholders, the aim of which is to return to a sustainable breakeven position by 31 March 2026.

The Trust continues to progress a significant capital programme as part of its estates strategy with expenditure of almost £150 million, with major works including the National Rehabilitation Centre and Decarbonisation projects.

As a result of the ongoing deficit position the Trust received of £39m of Public Dividend Capital (PDC) 'revenue support' cash during the second half of 2023/24 in order to meet its payment obligations.

### *System working*

Being the largest provider within the ICS, the Trust is a key partner within the system. We have seen evidence of regular cross-system working through a wide range of financial and operational system committees and working groups. This will need to continue and further develop in the context of the enforcement undertakings agreed with NHSE (see page 15) and the challenging environment within the NHS, both locally and nationally.

# Financial Sustainability

**How the Trust plans and manages its resources to ensure it can continue to deliver its services.**

We have considered the following in our work:

- How the Trust ensures that 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 which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

**Summary of arrangements**

We have identified a significant weakness in the Trust’s arrangements in relation to financial sustainability. Further details are set out on page 16.

**Delivery against 2023/24 financial plan**

Financial performance monitoring is undertaken by the Finance and Performance Committee (FPC), with a monthly Finance Report setting out performance to date and a high level analysis of the drivers of the outturn.

The Trust fell significantly short of its planned 2023/24 outturn (of breakeven), and in recognition of the deteriorating position, at month 10 (January 2024) had agreed a revised outturn deficit of £68m with NHSE. The full year outturn deficit was £71m. The table below sets out the variation in outturn across the Nottingham and Nottinghamshire ICS:

M12 Financial Performance £'M	Month 12 – year to date position		
	Planned Surplus/Def	Actual Surplus/Def	Variance
NUH	0.0	-71.0	-71.0
SFH	0.0	-14.0	-14.0
NHT	0.0	-22.0	-22.0
N&N ICB	0.0	-6.8	-6.8
<b>TOTAL</b>	<b>0.0</b>	<b>-113.7</b>	<b>-113.7</b>

Source: ICS Financial Update Paper, Finance and Performance Committee Papers, 23 May 2024

The key factors impacting on NUH were an efficiency shortfall of £22.9m, non-pay inflation and pay award pressures of £14.5m, pay and agency run rate pressures above plan of £14.7m, continued UEC escalation capacity of £9.5m and Community Diagnostic Hub income (which in March 2024 NHSE informed the Trust was no longer forthcoming) of £4.5m.

We recognise, as indicated above, there will be factors impacting the Trust’s financial position that are outside of its direct control, and therefore continuing to clearly identify and report on the nature and impact of these will be important to all stakeholders.

# Financial Sustainability

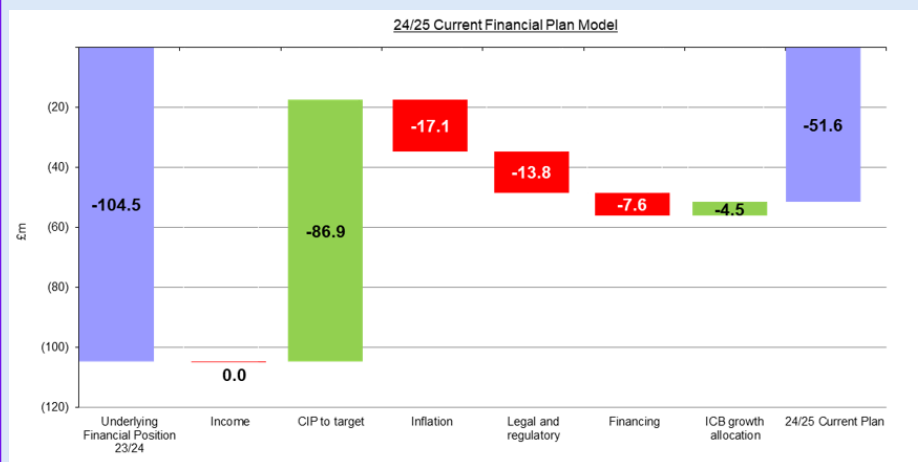
**How the Trust plans and manages its resources to ensure it can continue to deliver its services.**

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- How the Trust ensures that 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;
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- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

**2024/25 financial plan**

The chart below bridges between the “underlying” 2023/24 financial position to the 2024/25 plan deficit. The underlying outturn is over £30m higher than the actual outturn reported on the previous page as it takes account of a number of non-recurrent items such as a range of efficiency / one-off cost savings in 2023/24 across a number of projects, and the impact of the industrial action during the year.



**Notes**

1. **CIP to target** – see further detail overleaf
2. **Inflation** – driven by indicative planning guidance, including 1.1% efficiency
3. **Legal and regulatory** – various items e.g. the costs associated with the Independent Maternity Review
4. **Financing** – driven by increased depreciation charge in line with capital programme and lower cash balance compared to 2023/24

Source: Financial Sustainability Plan Summary, Trust Board 9 May 2024

In line with the NHSE deadline, the Trust and ICB submitted their final plan on 12 June 2024 which aligned with the agreed overall system deficit limit of £100m as communicated to the ICB by the NHSE Regional Director on 31 May 2024. NUH’s share of this was £51.6m, as above, which the Trust recognises is very challenging, particularly in the context of the need to deliver the required level of efficiencies (on which we comment further below) and the inflation assumption modelled into the plan.

# Financial Sustainability

## How the Trust plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Trust ensures that 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 which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## Efficiency programme and performance

Oversight and accountability for the delivery of the Trust’s Financial Sustainability Plan (FSP) rests with the Financial Sustainability Board (FSB) with onward monthly reporting to FPC. Divisional Oversight Groups and Programme Steering Groups provide information on the progress of schemes to facilitate challenge by the FSB.

In terms of CIP / efficiency delivery, the table below summarises the Trust’s performance against plan for 2023/24 and the position against the 2024/25 target (at June 2024), which itself represents c. 6.6% of the total pay and non-pay budget. NHSE has set a target that at least 60% of the 2024/25 savings plan should be recurrent savings. FSB is Chaired by the Chief Executive, attended by the ICB and we understand the Trust is intending to invite NHSE to these meetings going forward. A detailed written update on progress against plan is produced monthly. The Trust is being supported by a strategic partner, PA Consulting, both in terms of supporting Divisions in generating savings ideas and performing ongoing risk assessment.

	2023/24 plan (£m)	% of total	2023/24 act. (£m)	% of plan delivered	2024/25 plan (£m)	2024/25 identified YTD (£m)	% of total
Recurrent	74.0	88%	30.5	41%	86.9	55.6	64%
Non-recurrent	10.1	12%	30.7	304%		12.6	14%
Being developed	n/a	n/a	n/a	n/a	n/a	4.4	5%
"Gap"	n/a	n/a	n/a	n/a	n/a	14.3	16%
<b>TOTAL</b>	<b>84.1</b>	<b>100%</b>	<b>61.2</b>	<b>73%</b>	<b>86.9</b>	<b>86.9</b>	<b>100%</b>

Source: 2023/24 Month 12 PFR, Financial Sustainability Programme Update April 2024

The table highlights the Trust fell significantly short of its 2023/24 plan, with the majority of the shortfall (c. £20m) relating to the non-delivery of a planned efficiency in relation to Medically Safe for Discharge patients which has been attributed to “flow” issues within the Emergency Department and which we understand the Trust is actively addressing.

Overall, the table highlights the target is some £25m higher than that actually delivered for 2023/24, and with a commensurate increase in recurrent savings compared to 2023/24 would appear challenging, as recognised by the Trust. As such it is critical that the programme continues to move forward at pace both in terms of delivery of identified schemes and identification of further schemes at both Divisional and Corporate level.

# Financial Sustainability

## ***How the Trust plans and manages its resources to ensure it can continue to deliver its services.***

We have considered the following in our work:

- How the Trust ensures that 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 which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## ***Financial recovery plan***

In response to the financial pressures at the Trust, a financial recovery plan was initiated in August 2023. A Financial Recovery Group has also been established at ICS level, the purpose of which is to oversee the arrangements for financial recovery across the 4 organisations within the Nottingham & Nottinghamshire ICS.

The Trust continues to work actively within the wider Nottingham & Nottinghamshire ICS, having representation across all of its committees and working groups. In this context, the Trust is actively working with system partners on mechanisms to deliver this and manage the associated risks. The ICB notes that there is a high level of risk in the plan, and will be working with the system partners in the Financial Recovery Group to monitor efficiencies and progress against plans.

The Trust's financial recovery plan details the actions to be taken to avoid a "worst case" scenario deficit exceeding c. £100m for 2023/24. The overall aim of the plan is to recover the run rate to a stable breakeven position by 31 March 2026.

## ***Recovery Support Programme and enforcement undertakings***

Since the publication of the September 2021 CQC report on Well-Led, the Trust has been assessed as having level 4 support needs on the National System Oversight Framework (SOF) and has been within the NHSE Recovery Support Programme (RSP).

In a letter dated 4 April 2024, the Trust agreed with the NHSE a number of undertakings around financial performance, spending controls, provision of information and associated programme management. In a further letter dated 29 May 2024, NHSE set out a series of revised transition criteria to determine the Trust's exit from the Recovery Support Programme (RSP), which includes the need to deliver its agreed 2024/25 financial plan, achieving a balanced underlying position by 31 March 2026 (in line with the objective set for the ICB as a whole) as well as commissioning an independent external report on the efficacy of financial controls and processes by 30 September 2024.

Discussions with management indicated that whilst the Trust is actively progressing a number of the actions to support the delivery of NHSE's requirements, a formal self-assessment and associated action plan to deliver and sustain compliance has yet to be developed and shared with relevant Committees and Board. One of the key underpinning requirements is around cost run-rates and the introduction of vacancy control panels from September 2023 has halted the increase in headcount / pay costs (with the latter being broadly flat from November 2023). However, management acknowledged that more work was required in relation to workforce planning, specifically the mapping of resource need to service levels (and associated funding) at a Divisional level within the Trust.

There clearly remains a significant and continued challenge for the Trust with its Financial Plan for 2024/25 requiring a step-change in its efficiency requirement compared to that delivered in 2023/24, alongside the wider management capacity challenge of continuing to move forward its ambitious Trust-wide improvement programme.

# Financial Sustainability

## ***How the Trust plans and manages its resources to ensure it can continue to deliver its services.***

We have considered the following in our work:

- How the Trust ensures that 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 which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## ***Recovery Support Programme and enforcement undertakings (cont'd)***

Whilst it is clear from our discussions and review of documentation that both management and the Board recognise the extent of the challenge and associated risks to delivery, we have determined that there is a significant weakness in the Trust's arrangements in 2023/24. There is a need to further embed, and at a greater pace, the monitoring and oversight arrangements in relation to the specific requirements of both the NHSE Undertakings letter and the RSP transition criteria. In light of our earlier comment around the significant shortfall against the 2023/24 plan, an integral part of this will be ensuring that key planning and forecasting assumptions that drive the improvement in performance are soundly based with clear mitigations.

Our recommendation in response to this significant weakness is set out on page 25.

# Financial Sustainability

Key financial and performance metrics:	2023/24	2022/23
Planned deficit (adjusted financial performance)	Breakeven	£12.3 million
Actual deficit (adjusted financial performance)	£71.0 million	£10.1 million
Planned CIP as a % of spend	<b>5.1%</b>	<b>2.3%</b>
- Recurrent	- £74.0 million recurrent (88%)	- £18.6 million recurrent (55%)
- Non-recurrent	- £10.1 million non-recurrent (12%)	- £15.1 million non-recurrent (45%)
Actual CIP as a % of spend	<b>3.5%</b>	<b>2.1%</b>
- Recurrent	- £30.5 million recurrent (50%)	- £4.6 million recurrent (14%)
- Non-recurrent	- £30.7 million non-recurrent (50%)	- £29.1 million non-recurrent (86%)
Year-end cash position	£70.5 million	£81.6 million

# Governance

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

We have considered the following in our work:

- how the Trust 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 Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust 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 management or Board members' behaviour.

***Summary of arrangements***

**We have identified a significant weakness** in the Trust's arrangements in relation to governance. Further details are set out on page 21.

***Risk Management Process***

Risks are reviewed by the Executive-led Risk Management Committee (RMC) which meets monthly and is chaired by the Head of Risk Management. The RMC reviews reports from Divisions and Corporate areas and considers where risks are significant enough at a strategic level to be escalated for inclusion in the Trust-wide Board Assurance Framework (BAF). The Board delegates oversight of BAF risks to its sub-committees, with each sub-committee providing the Audit Committee with a bi-annual report on the risks within their respective domains. The BAF itself is reviewed by the Board on a quarterly basis.

Whilst the Trust's current approach to strategic risk management remains largely unchanged from 2022/23, work has been undertaken during 2023/24 to reassess and revise the form and content of BAF risk reporting and the Trust's approach to risk management more generally.

At the request of the Trust Leadership Board, a Significant Risk Register Review Group, chaired by the Director of Governance, was established in August 2023 to undertake a 'confirm and challenge' exercise of the Trust's operational risks in light of the significant number being graded highly. A Board Development session was held in February 2024 to discuss risk appetite and tolerance to feed into the 2024/25 Board Assurance Framework.

***Internal Audit and Counter Fraud***

The Trust have a dedicated counter fraud service provided by 360 Assurance. The LCFS has an agreed work plan and reports progress to each Audit Committee, with an annual report taken at the end of the year. This resource is supplemented via consideration of fraud by the Audit Committee and senior finance staff whilst preparing the financial statements.

***Financial monitoring and oversight arrangements***

The Trust has a well-developed financial planning process overseen at senior executive level through steering groups which incorporates regular engagement with key planning / operational leads and appropriate oversight by non-executives through the Finance and Performance Committee (FPC) meetings and other sub-committees / working groups. There is regular engagement between executives, senior managers and budget managers through confirm and challenge sessions to ensure emerging risks and opportunities are captured and factored into the overall plan.

# Governance

## ***How the Trust ensures that it makes informed decisions and properly manages its risks.***

We have considered the following in our work:

- how the Trust 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 Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust 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 management or Board members' behaviour.

## ***Financial monitoring and oversight arrangements (cont'd)***

During 2024/25, the Trust formed a new Planning Steering Group (PSG) to oversee the development of the operational plan (formerly the Planning and Delivery Group). The aim of the PSG is to improve co-ordination of the planning process and ensure the views of more stakeholders are taken into account. This group is chaired by the Director of Strategy and Transformation, and includes the Chief Operating Officer (COO), Chief Financial Officer (CFO) and other executive staff members.

The PSG reports into the Financial Sustainability Board (FSB) (previously the Financial Recovery Board). This weekly board is chaired by the Deputy Chief Executive and is attended by the CFO, COO, Chief Nurse and Director of Financial Recovery. The objectives of this group are to review financial progress against plans at a divisional level, trust wide and the month end trust financial position. They have a remit to act as the primary decision making body and to address key blockers to progress with respect to the financial recovery plan.

## ***Laws, regulations and policies***

Overall compliance with legislation, laws & regulations is monitored by the Director of Corporate Governance with an external legal firm available to provide supplementary advice if required.

The Trust has a range of Human Resources policies and procedures including a Conduct, Behaviour and Disciplinary Policy and Procedure which sets out the standards with which staff are required to comply. A register of interests is in place together with a policy for gifts and hospitality with regular reporting on new entries to the Audit Committee.

## ***Key decisions***

Key strategic decisions are made through the Trust's governance process. A scheme of delegation is in place which sets out where different decisions / approvals should take place, which was last updated in September 2023. The Trust has a business case proforma which is periodically updated and each case is subject to initial review by the Investment Governance Committee (IGC), and where appropriate, TLB and Trust Board. Only schemes within the capital programme and those delivering a positive margin can be approved by IGC (revenue value of up to £1m). Any scheme with a negative margin needs to be approved by TLB (loss of up to £250k), with a revenue impact of up to £5m. Any scheme with a loss greater than £250k or greater revenue impact requires Board approval.

# Governance

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

We have considered the following in our work:

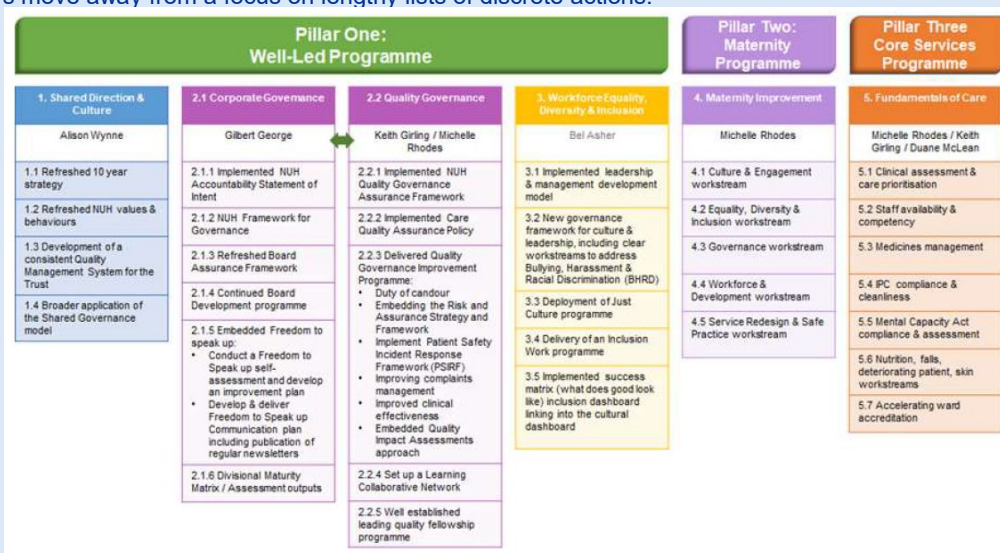
- how the Trust monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust 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 management or Board members' behaviour.

## CQC and Improvement Programme

As a follow up the previous inspection in 2021, the CQC carried out a provider level inspection of Well Led in June 2023 which included interviews with Board members and senior staff, review of data and policy documents, and information gathered from external partners. The report was published in September 2023 with the Well-Led domain improving from 'Inadequate' to 'Requires Improvement' as a result of identified improvements in the areas contributing to the previous rating. The overall Trust quality rating remained unchanged at 'Requires Improvement' and there were no changes to the ratings of the other four key questions. The inspection outcome led to the lifting of the Section 29A warning notice in relation to Well-Led.

The Trust has developed an action plan covering the CQC 'must dos', which includes those relating to maternity services (see page 23).

Notwithstanding the improvements identified in the CQC report, the Trust recognised the need to sustain positive progress and identified a number of key priority themes needing further focus as part of its 'Phase 2' quality improvement work, incorporating the CQC 'must dos' and 'should dos'. As shown below, these have been established as discrete programmes of work across six themes and under the three improvement pillars of Well-Led, Maternity and Core Services, continuing the Trust's move away from a focus on lengthy lists of discrete actions.



Source: Quality Assurance Committee paper, 22 February 2024

# Governance

## ***How the Trust ensures that it makes informed decisions and properly manages its risks.***

We have considered the following in our work:

- how the Trust 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 Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust 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 management or Board members' behaviour.

## ***CQC and Improvement Programme***

The Trust has recently refreshed its governance arrangements in this area with the establishment of a monthly Well-Led Oversight Group (WLOG) from January 2024 chaired by the Chief Nurse, the purpose of which is to provide assurance over the Quality Improvement Portfolio to achieve 'Getting to Good', by demonstrating delivery of the outcomes identified in the Well-Led and Core Services pillars, with updates from the Maternity Programme. The terms of reference of the WLOG appear comprehensive, with appropriate representation and accountabilities.

The April 2024 Quality Improvement Portfolio update to Quality Assurance Committee (QuAC) highlighted the development of an Impact & Assurance Framework agreed in March 2024 by the Well-Led Oversight Group to monitor progress in terms of both delivery and assurance status. This will consider the evidence / outputs in relation to agreed improvement actions / initiatives which will align to the new quality statements within the CQC Single Assessment Framework. The QuAC update also sets out the intention to scope a service review of the governance functions across the Trust (Corporate Governance, Quality and Patient Safety, Compliance and Assurance Hub) to be agreed by Trust Leadership Board with an overall completion date of September 2024.

## ***Governance and Oversight Arrangements***

A number of significant changes have taken place within both the Trust's Executive team and the wider governance structure over the past 12-18 months. Whilst bringing fresh insight and approaches, these changes will inevitably require time to bed in and have tangible impact, both at an Executive and Divisional level, at a time of ongoing significant challenge for the Trust.

During the course of our work, we inquired into the monitoring and oversight arrangements relating to the Public Sector Decarbonisation Scheme (PSDS) project, which involves full window replacement and a new Energy Centre at QMC. We identified that the project has a Senior Reporting Officer and a Project Management Board where we noted a key risk was flagged in February 2024 due to the project being c. 6 months behind in relation to its target completion date of 31 March 2025. This delay could place the project funding (via Salix) at risk. Whilst the FPC receive a report on "major strategic schemes", the PSDS project was not included in their March 2024 update and therefore they were not sighted on the potential risk to the Trust on a timely basis.

We also noted in the Financial Sustainability section the need for financial accountability across all Divisions. For example in relation to workforce planning and mapping of resource need to service levels (and associated funding) being owned at a Divisional level within the Trust.

In the context of the number of changes in the Trust's senior team and the need to embed governance and accountability across all levels of management we have determined that there is a significant weakness in the Trust's arrangements relating to governance, which may potentially expose the Trust to financial, operational and reputational risk. The weakness is particularly focused on the need for more Divisional accountability and clearer oversight and escalation arrangements.

Our recommendation in response to this significant weakness is set out on page 25.

# Governance

	2024	2023
Control deficiencies reported in the Annual Governance Statement	<b>Four</b> – relating to Maternity and Well-Led, Operational Performance, People and Finance	<b>Four</b> – relating to Maternity and Well-Led, Operational Performance, People and Finance
Head of Internal Audit Opinion	Moderate Assurance	Moderate Assurance
Oversight Framework segmentation	Segment 4 (Mandated Intensive Support)	Segment 4 (Mandated Intensive Support)
Care Quality Commission rating	Requires Improvement (2023)	Requires Improvement (2021)

# 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***

We have considered the following in our work:

- 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

## ***Summary of arrangements***

**We have not identified any significant weaknesses** in the Trust's arrangements in relation to economy, efficiency and effectiveness.

### ***Reporting framework and budget monitoring***

The Trust has an appropriate reporting framework in place. A detailed Finance Report is produced monthly and taken to the FPC, prior to a summary report being taken to the Trust Board. In addition the monthly Integrated Performance Report (IPR) consolidates and reports on a wide range of metrics across three domains in line with the Trust's strategy, 'Our Patients', 'Operational and Financial Performance' and 'Our People'. The IPR highlights the key areas for improvement within each domain which are reviewed in detail by the relevant sub-committees prior to Board review.

Throughout the year, budget holders are provided with a range of information to enable them to make informed decisions, including establishment reports and performance packs which are discussed at executive-led monthly divisional performance review meetings. These reviews follow a standard format with key achievements and risks highlighted in the summary section. Further detail is then provided on performance indicators (covering divisional priorities and standard topics such as people, finance, quality & safety) and the progress of capital and revenue service investments.

### ***CQC and Maternity Improvement Programme (MIP)***

The Trust was subject to an unannounced inspection of its maternity services by the CQC at both City Hospital and Queen's Medical Centre (QMC) in April 2023. The report was published in September 2023. The maternity ratings for both sites improved from the previous 2021 CQC inspection on 3 of the 5 key CQC questions (safe, responsive and well-led), with the overall ratings for maternity improving from 'Inadequate' to 'Requires Improvement'.

As a result of improvements identified through the inspection, both the Section 29A warning notice issued in 2022 and the Section 31 licence condition issued in 2020 were lifted.

The Trust is in the process of transitioning to phase 2 of the MIP, which in a similar vein to Well-Led, will be project-led rather than action-led, seeking to maintain a focus on more transformational changes. As shown in the diagram on page 20, Maternity now a separate pillar within the Trust's wider improvement programme alongside Well-Led and Core Services.

The number of individual Maternity workstreams has reduced from eight to four to support further focus and cohesion. The Trust has also streamlined its governance arrangements in that the purpose and functions of the previous Maternity Improvement & Assurance Board and Maternity Oversight Committee have been combined. The new group continues to be non-executive led and reports to the Trust Board via the Quality Assurance Committee.

# 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***

We have considered the following in our work:

- 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

## ***Independent Maternity Review and police investigation***

The Independent Review of Maternity Services in Nottingham, led by Donna Ockenden, is continuing and has now been formally extended to September 2025, with an enhanced remit to accept new cases up to May 2025. The process has also changed from 'opt in' to 'opt out' with the aim of increasing the number of participating families and overall is now expected to cover up to 2,000 cases, with an opt out rate of c. 5%. The Trust continues to deploy a dedicated team (and separate to those involved in the maternity improvement work) within the Project Management Office to manage and administer requests from the review team.

Quarterly review meetings are continuing to take place at which key matters arising from the review are highlighted to enable the Trust to incorporate these into its ongoing quality improvement programme. As the review has gathered pace, the Trust introduced an Independent Maternity Review Oversight Group (IMROG) in November 2023 to provide monthly executive oversight, chaired by the Chief Executive. This group maintains a rolling Action and Decision Log which includes agreed actions, owners and due dates and RAG ratings for actions not completed. From the documentation we have reviewed, there are appropriate reporting lines in place.

Alongside the CQC and Ockenden activity, the Trust is also the subject of a police investigation into its maternity failings.

# Recommendations

We raised the following recommendations in response to significant weaknesses identified in our value for money procedures.

#	Recommendation	Management Response
1	<p><b>Financial Sustainability</b></p> <p>We recommend a formal action plan, with clearly accountable roles and milestone dates, is developed to respond to both the Undertakings and RSP transition requirements. This should be approved by relevant Committees and the Board, be subject to regular self-assessment and reporting of progress both internally and to external stakeholders to ensure the Trust remains on track. Alongside this the Trust should continue to develop and embed its controls around expenditure run rates as well as refining workforce planning to ensure the improvements made in the latter part of 2023/24 continue to impact going forward.</p>	<p>The Trust accepts the auditor recommendation.</p> <p>The Trust has established the Financial Sustainability Board that focuses on delivery of the Financial Sustainability Plan that was approved by the Trust Board. Following the issuing of the Undertakings and the RSP transition criteria, the terms of reference for the meeting will be amended to include actions required to address these issues.</p> <p>This will include a reporting line from Financial Sustainability Board to Finance and Performance Committee, Trust Board and the monthly NHSE / ICB / NUH Finance Oversight meeting to provide regular updates on progress against the action plan.</p>
2	<p><b>Governance</b></p> <p>Whilst we acknowledge the significant changes made to date around governance and executive leadership, we recommend the Trust further develops and embeds its accountability framework across both Divisional and Corporate areas to ensure individuals are held accountable and feel sufficiently empowered to escalate matters to support the oversight of the Trust's key risks.</p> <p>Our recommendation is made in the context of the examples provided on page 21, regarding escalation of projects risks and the need for greater Divisional ownership of cost saving initiatives.</p>	<p>The Trust is putting in place a Major Programmes sub-committee of the Finance and Performance Committee, chaired by a NED, which will give increased oversight and assurance for Major Programmes, PSDS and the Electronic Patient Record.</p> <p>The Trust has reviewed its approach to financial transformation and recognises the need for further accountability. The Financial Sustainability Board has been established and through this it holds to account the workstream SROs alongside Divisional Leadership Teams to deliver the efficiency programme. Over 24/25 the programme is evolving to a smaller number of large scale transformational workstreams focusing on productivity, standardise, centralise and digitalise and service reviews, each with an executive SRO.</p>

# Prior year findings

## Significant weaknesses followed up from the prior year

In our annual auditor's report for the financial year 2022-23 we reported that the Trust had a significant weaknesses in arrangements over governance and improving economy, efficiency and effectiveness. As required by the Code of Audit Practice we have revisited this issue and set out in the table below an update in regards to the arrangements in this area.

#	Recommendation	Management Response	Current status
1	<p><b>Governance – Well-Led</b></p> <p>As the Trust moves into phase 2 of its Well Led response programme, we recommend ongoing careful consideration is given to the need to balance this activity and mitigate duplication of effort and overlap with the Trust's existing improvement programmes such as People First, whilst also being able to readily and transparently demonstrate impact and specific outcomes to regulators and other third parties. In a similar vein to the maternity programme, the mechanisms around embeddedness and assurance over actions will need to be appropriately agile and measurable to support this.</p>	<p>The Trust has completed 91% of actions on its Phase 1 Well-led plan. Phase 2 is now in development and will take a programme management approach to developing specific plans for the remaining areas requiring larger transformational changes. This work is happening in close alignment with the Trust's People First cultural change plan to avoid duplication of effort and ensure common governance.</p>	<p>Implemented – the Trust is now progressing its Phase 2 quality improvement programme.</p>
2	<p><b>Economy, Efficiency and Effectiveness – Maternity Services</b></p> <p>In the context of a likely increase in the number of actions the Trust will be required to deliver over the coming months as a result of both the CQC inspection activity and the emerging findings of the Ockenden Review, we recommend the Trust reflects on the changes it has made to the oversight and reporting arrangements over the past year and ensures they are adapted as appropriate to remain fit for purpose. Whilst we understand this is something the Trust is reflecting upon, we recommend specific consideration is given to how its reporting can be developed to provide ongoing assurance over the embeddedness of actions, both within the programme management tool and reporting to Board.</p>	<p>The Trust has worked closely with NHSE, utilising Recovery Support Programme funding to enhance the Maternity Improvement Programme capability, especially in terms of a greater involvement with the Trust PMO. This has brought an increased rigour to the approaches within the programme and the PMO provides an additional level of scrutiny to ensure that the Maternity Improvement framework and governance processes are effective.</p>	<p>Implemented – the Maternity Improvement Programme is now an integral pillar within the Trust's Phase 2 quality improvement programme.</p>



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