

From: University Hospitals of Leicester NHS Trust

Re: The Prior Year Adjustment to Trust Accounts

Date: 23rd June 2020

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Overview:

In January 2020 the newly appointed Interim Chief Financial Officer initiated a review of the Trust's balance sheet in response to concerns identified in the 2018/19 audit.

It thus came to light that the Trust's long standing deficit was significantly misstated in last year's final accounts. This means that the Trust has had to make a 'prior year adjustment' to those accounts amounting to £46m. Despite this, the Trust received an 'unqualified audit opinion' last year. As a consequence of this the regulator, NHSE/ I have asked the accountancy and audit firm, PwC to investigate the Trust's underlying financial position. This has been reported monthly in public during Trust Board meetings.

The financial position deteriorated due in large part to the complex impact of the balance sheet review. This has resulted in the Trust internally reporting a Full Year Outturn (FOT) deficit of £84.1m excluding PSF, FRF and MRET*, funding, (These are NHS central funding allocations to Trusts based on a number of operational and financial performance metrics), and a £66.4m deficit including PSF, FRF and MRET and after adjusting for the expected prior year adjustment of £46.2m.

However, the reported position to NHSE & I in the end of year data return was a £112.6m deficit including PSF, FRF and MRET. This reflects the fact that there will be no prior year adjustment in the national NHS accounts, as the £46.2m is not considered 'material' for national reporting purposes.

The Trust will be in a position to accurately update the forecast once the outcome of the PwC work is available, (at the time of writing this work was ongoing). This work will also help inform the final year end accounts position and external audit.

Clearly, this is a serious issue for the Trust and the team are working very hard to confirm an accurate understanding of the issue and most importantly, to restore the Trust's finances.

The Trust has immediately taken a series of actions to improve and strengthen its financial controls and governance and will act on the findings of PwC's investigation, once finalised, in line with the requirements of NHS E/I.

The measures taken to date and planned include the following:

- Implementation of enhanced financial transaction, journal, balance sheet and cash controls;
- Training commissioned and commenced for the Finance Team;
- Integration of quality improvement and efficiency teams in a revised PMO structure;
- External support secured to underpin leadership and delivery of the savings programme in 2020/21;
- Finance training and development for the Chairman and members of the Trust Board in train;
- Acting Chief Executive now chairs a fortnightly Financial Recovery Board, reporting to the Finance and Investment Committee of the Trust Board;
- COVID-19 expenditure and approvals framework implemented via Budget Holders;
- Commission Finance training and development for clinical leaders and managers, including all key budget holders.

NOTE: It is recognised that NHS finances are notoriously complex. As such the Trust's Interim Chief Financial Officer will be on hand at Scrutiny to speak to the paper. For completeness the Trust Board Paper dated May 2020 which set out the expected deficit and the £46m Prior Year Adjustment is attached as Appendix 1 with this briefing.

*** An explanation of the acronyms:**

'MRET' This is the Marginal Rate for Emergency (admissions) Tariff, which was introduced in the NHS in 2010/11. The rule saw NHS hospitals only paid 30% of the regular Tariff price for emergency admissions above a fixed baseline.

'PSF' And 'FRF' The Provider Sustainability Fund is given to those trusts that agree their control totals with NHSE/I and deliver on operational and financial performance targets. 'FRF' is the Financial Recovery Fund which is superseding PSF but operates on similar principles.