



Auditor's Annual Report 2024/25 DRAFT

I confirm that this is the final version of our Auditors Annual Report relating to our audit of the 2024/25 financial statements for NHS Lancashire and South Cumbria Integrated Care Board. This document was discussed and approved by the Integrated Care Board's Audit Committee on 16 June 2025.

Tim Cutler

Partner for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square, Manchester, M2 3AE

19 June 2025

Financial Statements: **unqualified**

Use of resources: **significant weaknesses identified**

NHS Lancashire & South Cumbria ICB

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16 June 2025

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KEY CONTACTS

Tim Cutler
Partner
Tim.Cutler@kpmg.co.uk

Josh Parkinson
Manager
Josh.Parkinson@kpmg.co.uk

Richard Yang
Assistant Manager
Richard.Yang@kpmg.co.uk

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This report is addressed to NHS Lancashire & South Cumbria ICB](the ICB), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state, those matters we are required to state to them in an auditors' annual report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the ICB, as a body, for our audit work, for this report, or for the opinions we have formed.

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 2024-25 audit of NHS Lancashire & South Cumbria ICB (the ‘ICB’). 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 ICB 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 ICB 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 ICB. 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 ICB’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.



Regularity - We assess whether expenditure incurred is in line with the purposes for which it was provided.



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:

| | |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accounts | <p>We issued an unqualified opinion on the ICB’s accounts on 19 June 2025. This means that we believe the accounts give a true and fair view of the financial performance and position of the ICB.</p> <p>We have provided further details of the key risks we identified and our response on page 7.</p> |
| Annual report | <p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the ICB.</p> <p>We confirmed that the annual report has been prepared in line with the NHS Group Accounting Manual (GAM).</p> |
| Value for money | <p>We are required to report if we identify any matters that indicate the ICB does not have sufficient arrangements to achieve value for money.</p> <p>We identified 1 significant weakness relating to financial sustainability as well as 1 significant weakness relating to governance. These relate to the challenges in controlling All Age Continuing Care (AACC) expenditure in year as well as the undertakings received from NHSE which highlighted weaknesses in financial governance relating to oversight of the local Integrated Care System.</p> <p>We have also followed up on the significant weaknesses in the prior year on page 7.</p> |
| Regularity | <p>We did not identify any matters where irregular expenditure had been incurred.</p> |
| Other reporting | <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 ICB's financial statements:

- Give a true and fair view of the state of the ICB's affairs as at 31 March 2025 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 on 23 April 2025 as being relevant to ICBs and included in the Department of Health and Social Care Group Accounting Manual 2024/25; 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 ICB's financial statements on 19 June 2025.

The full opinion is included in the ICB's Annual Report and Accounts for 2024/25 which can be obtained from the ICB'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 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| Management override of controls We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment. | We have performed the following procedures in order to respond to the significant risk identified: <ul style="list-style-type: none"> - Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias. - Evaluated the design and implementation of controls over journal entries and post closing adjustments - Assessed the appropriateness of changes, compared to the prior year, to the methods and underlying assumptions used to prepare accounting estimates. - 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. - Identified journal entries and other adjustments with characteristics that indicate that they may be inappropriate or unauthorised and therefore may have been used to manipulate the financial statements (which we refer to as 'high-risk journals and other adjustments') – for instance journals with unusual double entries to Cash account codes or to Non-NHS Accruals and perform procedures to test the appropriateness of these entries and adjustments. - We assessed the controls in place for identification of related party transactions and tested the completeness of the related parties identified. We verified that these had been appropriately disclosed in the financial statements. | We did not identify any material misstatements relating to this risk. |

03 Value for Money


Value for Money

Introduction

We are required to consider whether the ICB 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 |
|-------------------------------------------|-------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------------------|
| Commentary page reference | 11-13 | 14-16 | 17-18 |
| Identified risks of significant weakness? | <div><div></div>Yes</div> | <div><div></div>Yes</div> | <div><div></div>No</div> |
| Actual significant weakness identified? | <div><div></div>Yes</div> | <div><div></div>Yes</div> | <div><div></div>No</div> |
| 2023-24 (PY) Findings | Significant weakness in arrangements identified | No significant risk or weakness identified | Significant risk identified which did not translate into a significant weakness |
| Direction of travel | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |

Significant weaknesses followed up from the prior year

A significant weakness surrounding financial sustainability was identified in the previous year linked to the approval of a plan with significant levels of high risk.

On page 20 we have set out commentary on the significant weaknesses and other findings identified in the prior year and whether the recommendations to address the weaknesses have been satisfactorily implemented.

Value for Money

NATIONAL CONTEXT

Following the general election in July 2024 the Labour government commissioned reviews in order to determine the causes of challenges within the sector and where priorities were for improvement. A 10 year plan is currently being developed to set out the strategy for transforming health care services in the future.

Operational performance across the sector has continued to be significantly below constitutional standards, continuing a trend that began during the Covid-19 pandemic. In March 2025 25% of patients attending A&E waited more than the four hour target and 60% of patients awaiting planned care had a wait of more than 18 weeks. While mental health performance improved year on year in a number of areas the backlog for treatment nationally has grown by a further 11% year on year, with 1.7 million referred patients awaiting their second contact.

During the year a revised timetable was announced for the New Hospital Programme, the national capital project to build 40 new hospitals. For a number of hospitals this has meant delays to the timetable for their construction deferred to the 2030s.

Financial performance

Local NHS systems continued to face challenging financial targets in 2024-25. Budgets across the 42 integrated care systems in England had a combined £500m deficit compared to the funding that was available at the beginning of 2024-25. By February 2025 (the latest national data available when this report was drafted) the forecast performance of all systems was a £604m overspend against the agreed figures.

Each year NHS entities are delegated efficiency targets through funding allocations and contracting guidance. Across England there was a £539m shortfall in the identified efficiencies compared to those required based on the agreed levels of funding delegated to systems.

Structures

Significant changes to the structure of the health system have been announced, to be implemented between 2025 and 2027. ICBs have been set running cost targets, with many expected to pursue mergers or large restructurings in order to achieve these. Providers are expected to reverse 50% of their corporate cost growth since Covid-19. During 2025-26 all NHS entities will therefore need to reassess their structures, which can impact on management bandwidth, stability of controls and morale.

LOCAL CONTEXT

The ICB's arrangements have been understood in the context of the scale of the financial challenge across the NHS nationally and within the Lancashire and South Cumbria system. We have also understood the impact that the economic landscape, namely recently high inflation, is having on the ability of the system to deliver efficiency and productivity improvements.

In this context, the ICB is responsible for some aspects of the system's financial sustainability that sit outside of its control. Nevertheless, it is clear that the ICB has responsibility for and a pivotal role in leading the system to a more financially sustainable future, equipping system partners with the tools to unlock efficiencies in day-to-day operations as well as driving forward transformation with regard to health and social care pathways and system reconfiguration.

Entering into the 24/25 planning cycle, the ICB and providers held a gross deficit of £705m prior to CIP and QIPP schemes, leading to an improvement plan total of over £500m to reach the agreed £175m deficit.

We are aware that due to a deterioration in financial position throughout the year – including a high exit run rate and a shortfall on provider CIP delivery – the ICB was placed in Segment 4 of the National Oversight Framework (NOF4) by NHSE. This has resulted in the ICB bringing in external consultants and the appointment of a System Turnaround Director with the aim of getting a strong grip on the ICB's run rate and ensuring strong system wider collaboration and oversight.

Financial Sustainability

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

We have considered the following in our work:

- How the ICB 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 ICB plans to bridge its funding gaps and identifies achievable savings;
- How the ICB plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the ICB 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 ICB identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

2024/25 Financial Planning & Wider Context

At the outset of the financial year the Board's draft plan was for a £198.3m system deficit – reduced to £192m when excluding a Private Finance Initiative adjustment at one of the local NHS providers which was resolved nationally. The ICB subsequently agreed £175m of deficit funding from NHSE for 24/25, resulting in a £17m gap against the breakeven target required by NHSE. The final plan approved on 12 June 2024 confirmed that the system would deliver a control total of a deficit position of £175m (£87.5m ICB & £87.5m providers) which would then be bridged by the agreed deficit funding to reach a breakeven position. This funding was received from NHSE in September 2024.

To achieve the planned position for 2024/25 the level of savings plans were set at £531m across the system (£270m ICB & £261m providers). This represented 6.1% of the total allocation for the ICB and approximately 9% for providers.

At the time of writing this report the ICB has met its RRL and not breached its statutory duties. We have reviewed the Month 11 System Report which was presented to the April Finance & Contracting Committee which details that the ICB has achieved £219.7m of QIPP (Quality Innovation, Productivity & Prevention) vs a year-to-date target of £225.5m and was forecasting achieving the entire QIPP plan. Given the low level of under delivery of QIPP here we do not deem there to be any impact upon our work over the Efficiency, Economy & Effectiveness domain of our VFM work.

In contrast to the positive progress in respect of QIPP, the providers are significantly off plan with only £114.6m of CIPs (Cost Improvement Plans) delivered as at Month 11 vs a target of £220.0m. The forecasted position at that point was a final achievement of £130.4m vs a target of £260.7m. The final Month 12 figures show a QIPP delivery of £240m vs a target of £270m (89%) and a CIP achievement of £131m vs a target of £261m (50%).

From an ICB perspective, we have held meetings with various key stakeholders throughout the year and inspected reports from Internal Audit and external consultants – all of which have flagged that the ICB has struggled throughout 24/25 to control All Age Continuing Care (AACC) expenditure – which is comprised of Continuing Healthcare (CHC) and Non-CHC. This is evidenced by the fact that the Month 11 system report details a £65.8m overspend on AACC, with a final Month 12 overspend of £75.3m.

The ICB has requested multiple deep dives by Internal Audit over the last two years to better understand and identify the underlying issues relating to AACC, with the 24/25 AACC Head Of Internal Audit Opinion giving a limited assurance conclusion. The AACC review flagged issues across a wide range of areas such as: relationships with third party providers; lack of in-depth financial reporting commensurate with the scale of the AACC budget; delays in reviews of fast-track packages & potentially unwarranted packages of care being paid for.

Financial Sustainability

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

We have considered the following in our work:

- How the ICB 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 ICB plans to bridge its funding gaps and identifies achievable savings;
- How the ICB plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the ICB 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 ICB identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

We have also inspected the externally conducted rapid review of AACC, which is particularly critical of multiple elements of the ICB's AACC commissioning. The report highlights challenges impacting financial recovery such as:

- Misalignment between financial, operational & wider management information which is impeding effective forecasting of expected packages in year;
- A need for stronger accountability structures ensuring co-ordination between financial management and service commissioning. For instance, packages are predominantly viewed from a quality angle rather than financial, and review and approval of packages are conducted via email with no oversight from key leadership. This is reflected in the fact that the average weekly cost of a package of care across LSC is £1,077, 18% above the national ICB average, indicating ICB-wide pricing inefficiencies or higher dependency on costly providers;
- High CHC & Fast Track eligibility rates, excessive reliance on high-cost placements and backlogs in reviews. For example, as at Month 10 there were 3,557 packages classified as overdue for a framework review with a cumulative cost of £3m/week;
- Operational inefficiencies resulting in inappropriate referrals and prolonged funding arrangements, for instance the historic practice of continuing CHC funding for 28 days post a non-eligibility decision and the historical practice of interim funding of a package prior to assessment;
- Potential disproportionate funding burden on the ICB based on unclear joint funding agreements with the Local Authorities.

We are aware that alongside the Investigation & Intervention Programme there has been a Turnaround Director focussed on AACC as well as regular review of costs via the Improvement Assurance Group (IAG). We have reviewed examples of the monthly minutes and subsequent letter & action plan issued to the ICB as part of these IAG meetings – with the March 2025 letter detailing that since the start of turnaround in early January 2025 there have been circa £20m of one off AACC costs impacting the run rate that were not included in the initial run rate analysis – showing run rate was deteriorating in respect of AACC. However this is very much seen as a one-off cost to ensure that packages of care are appropriate and up to date across AACC and are input into Adam more promptly, therefore will help the ICB in improving its AACC forecasting in 25/26.

This update also confirms that there has been progress made in reducing conversion rates from 34% to 25% and with fast-track approvals reducing from 41% to 28%. This will therefore provide a more positive position heading into 25/26 and a reduced run rate through reduced conversions.

Financial Sustainability

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

We have considered the following in our work:

- How the ICB 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 ICB plans to bridge its funding gaps and identifies achievable savings;
- How the ICB plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the ICB 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 ICB identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Although the ICB has made progress in improving its AACC position, we do not believe that the in-year forecasting and approach to AACC run rate was sufficient such that all in year costs could be foreseen – as evidenced by the large overspend to budget. This is also evidenced through a similar budgetary finding with the AACC Internal Audit report. This is in part due to the historic issues with cost sharing of packages between the ICB and local authorities, meaning that the ICB is not fully agreed with all parties on its responsibilities for costs relating to AACC.

2025/26 Financial Planning

We are aware of ongoing reform in the sector that will see the ICB's running costs cut by circa £35m (47%) by Q3 of 25/26. The ICB have started to assess workforce numbers and will plan to implement a redundancy programme to achieve the required reductions in Whole Time Equivalents (WTEs), as well as enacting a hiring freeze.

From a wider system perspective, a key initiative during 24/25 was to be the review of workforce in providers, which had increased by ~7,000 WTEs from 2019-2024, and the formation of 'One LSC' was to bring together all the back-office functions as one with a view to gaining efficiencies. However, we have inspected an external review of One LSC, with a conclusion that a greater consensus is needed at a system level, with reaffirmed principles and guidelines, to drive pace, and move rapidly to a shared service transformation focus. This is supported by the fact that One LSC has delivered just £9.6m (60%) of system efficiencies in 24/25 of its £16m target. As such it is vital that the pace of change and implementation is increased as this is a key system wide efficiency area for 25/26 and beyond - with planned savings of £31.3m & £40.8m for 25/26 and 26/27 respectively.

The ICB have engaged with NHS England on an ongoing basis over the last few months to discuss the 2025/26 outturn position and the plans for future recovery and transformation of the system. We are aware that based upon the 24/25 outturn deficit of £87.5m (excluding Deficit Support Funding (DSF) received in Month 6), the 25/26 plan has been agreed at a deficit of £54.5m, which will be bridged by further DSF. The system wide position is an agreed deficit of £109.1m which again will be bridged by further DSF.

Delivery of the ICB's £54.5m deficit will require the delivery of a Waste Reduction Programme (WRP) target of £142m.

Conclusion

Given the extensive issues flagged as well as the circa £64m overspend in year, we have concluded that there was a significant weakness in arrangements to secure value for money in respect of Financial Sustainability, specifically linked to AACC. We recognise that the ICB has had a particular focus on AACC during 24/25 - through the I&I programme, MIAA & PWC reviews and the large number of QIPP schemes – which have largely delivered the savings identified. However, the overspend in this area and lack of clarity over shared costs presents a risk of the ICB breaching its RRL in the 25/26 financial year should it not receive similar Surge Funding as it did in 24/25. See our linked recommendation on Page 19.

Governance

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

We have considered the following in our work:

- how the ICB 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 ICB 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 ICB 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

Undertakings

The ICB received undertakings from NHSE in February 2025. These set out that NHSE has grounds to suspect that the ICB is failing or has failed to discharge its duties in respect of:

- Financial Planning, in particular the fact that the LSC system is the most financially challenged system in the NHS and that the financial position has significantly deteriorated in year;
- Governance, specifically that given the above financial issues this has raised concern over poor governance arrangements including a culture of revision of provider plans and CIPs as well as unclear roles and responsibilities for overseeing provider finances.

We note that the ICB has met its RRL for 24/25 and delivered a sizeable QIPP saving (£240m vs a target of £270m). The undertakings are primarily aimed at failings at a system level and the lack of oversight and governance of the providers, such that their financial positions have been allowed to deteriorate throughout the year.

As part of our further inquiries with key stakeholders & review of minutes & correspondence with regulators we are aware that the ICB has implemented an Undertakings Dashboard. We can see that this maps the NHSE Undertakings findings and has identified measures upon which the ICB can measure its progress to ensure that these findings are addressed.

This dashboard will then be taken to the Board meetings to be regularly scrutinised, with a view to the ICB responding to the undertakings. We note that some of these measures to be taken cannot yet be monitored due to their nature, however some have already been achieved – such as the submission of the 25/26 financial plan or the ICB's review of its governance structure.

As such we are satisfied that the ICB is responding to these undertakings in a productive manner, albeit this dashboard is in its infancy and will require further revision to fully capture the actions required & stakeholders that need to be engaged to ensure the ICB can comply with the Undertakings.

Leadership & Committee Review

As part of the response to the undertakings – and driven by the fact that the ICB had not fully reviewed its committee structure since its formation - the ICB Chair has undertaken a Governance & Leadership review as well as a Committee Review, which outlines several proposals to improve governance arrangements to help oversee provider performance.

Governance

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

We have considered the following in our work:

- how the ICB 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 ICB 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 ICB 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

This has identified the need for additional non-executive expertise on the Board as well as a change in the executive operating model & level of system oversight. There have also been revisions to the terms of reference and membership for the now renamed Finance & Contracting Committee and Quality & Outcomes Committee, as well as the disbanding of the Primary Care Commissioning Committee and the Public Involvement and Engagement Advisory Committee. The report has also recommended the formation of a new committee to provide oversight and scrutiny of commissioning arrangements, to be setup during Q2 25/26, as well as for the continuation and expansion of the new approach to Improvement Assurance Groups (IAGs) to ensure executives are consistently held accountable for specific areas of system performance.

We note that the IAGs were in place for 24/25 which featured system wide involvement and accountability, with these meetings also chaired by the system turnaround director. However, despite the involvement of NHSE & third-party consultants - although there were signs of improvement towards year end within the expenditure run rate - these meetings have not been effective enough to prevent the financial position deteriorating across the system throughout the year and therefore further improvement of the ICB's governance of providers is required.

Other

We became aware through our media review of an abandoned procurement exercise in relation to Non-Emergency Patient Transport Service (NEPTS) as well as a legal challenge linked to clinical waste contracts. We have obtained the legal advice received re the waste contracts, as well as the summary reports re the legal challenges to the NEPTS procurement exercise.

We are aware that the NHS procurement market is a highly litigious area, and these claims are linked to procurements that were not started within 24/25. Additionally, the claim against the ICB for the waste procurement is a joint action against over half of the country's ICBs nationally. Given this situation and the fact that the NEPTS procurement has now been re-run using the new Provider Selection Regime which effectively ends the legal challenges, we are satisfied that there was no weakness in arrangements to secure VFM during 24/25 as a result of either of these.

Governance

Conclusion

Based on the risk assessment procedures performed we have identified a significant weakness associated with Governance, specifically the lack of oversight and challenge of provider financial positions.

We recommend that the culture of system wide working, and accountability is further embedded to build upon the IAG structure that has been enhanced during 24/25. This should ensure that providers are fully held accountable for delivery of CIPs and any deterioration of financial position, as well as scrutinising deviations from plan. Additionally, whilst the NHSE Undertakings dashboard will help to ensure the ICB can comply with the undertakings, it is in its infancy and will require further revision to fully capture the actions required & stakeholders that need to be engaged.

| | 2025 | 2024 |
|------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------|
| Control deficiencies reported in the Annual Governance Statement | 13 | 0 |
| Head of Internal Audit Opinion | AACC – Limited assurance Other – Moderate assurance | Moderate assurance |
| Oversight Framework segmentation | Segment four – mandated intensive support | Segment three – mandated and targeted support |

Improving economy, efficiency and effectiveness

How the ICB 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 ICB ensures effective processes and systems are in place in order to develop their cost saving efficiency saving program;
- how the ICB evaluates the services it provides to assess performance and identify areas for improvement;
- how the ICB 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 ICB commissions or procures services, how it assesses whether it is realising the expected benefits.

Summary Of Risk Assessment

The ICB has improved its business case process during 24/25 to support the Board in making consistent decisions. All papers for key decisions are sponsored by an executive director. The proposals require Impact Assessments being documented in its front sheets addressed to the Committee to which it is presented, which are independently reviewed. There is also engagement with external stakeholders in major developments through public forums such as the Citizen Panel on the ICB's website. We note that the process is being continuously developed with a detailed guidance of the process being presented to the Finance & Performance Committee in March 2025.

We have reviewed the progress update for Quality Impact Assessments to the Quality Committee in October 2024 following the proposal for a more streamlined process raised in July 2024. The update proposes changes such as incorporating stakeholder impact for change initiatives and routine oversight by the QIA review group to ensure effective risk mitigations and management, with some of the proposed changes already partially in place.

The ICB developed its Final Plan for 2024/25 and presented it to the Finance & Performance Committee in June 2024. We saw high level challenge of key budget holders through the minutes of the March 2024 Board meeting, at which the 2024/25 draft financial plan and high-level budgets were presented. This plan included savings targets which were set at £531m across the system (£270m ICB & £261m providers).

The ICB was able to deliver £173m worth of efficiencies as at month 10 which is £10m behind plan. Although the ICB is still required to deliver around £93m worth of savings in the remaining two months of the financial year to meet the financial plan, the ICB has still achieved a substantial increase of savings when compared to the £63m worth of efficiencies delivered in the entirety of 23/24.

The ICB has identified All Age Continuing Care (AACC) as the main risk towards the breakeven plan, with a £61.7m YTD overspend as at month 10. Significant work is being performed to understand the ICB as an outlier compared to other regions. CHC eligibility on referrals for the ICB continues to be significantly above average when benchmarked against nearby regions and nationwide. An aspect of AACC identified as a cost driver is the level of fast-track referrals being received and accepted by the ICB. Tighter controls have been implemented by the ICB on the triage and training process, which has seen an evident impact on the level of fast-track referrals and the number of referrals being screened out. However, the ultimate driver of cost is volume of packages which can be difficult to forecast as part of a financial plan.

The ICB has multiple channels in which it engages with its ICS partners (such as the Provider Collaborative Board) as well as wider partnerships and stakeholders, detailed within the Joint Forward Plan 2024. The Board and other sub-committees receive regular updates on these collaborations. We have reviewed the Chief Executive's Board Reports as well as Board minutes discussing the contents of the report and are satisfied that the Board are well-informed of the work performed by wider Integrated Care Partnership.

Improving economy, efficiency and effectiveness

How the ICB 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 ICB ensures effective processes and systems are in place in order to develop their cost saving efficiency saving program;
- how the ICB evaluates the services it provides to assess performance and identify areas for improvement;
- how the ICB 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 ICB commissions or procures services, how it assesses whether it is realising the expected benefits.

Summary Of Risk Assessment (continued)

KPMG have performed internal benchmarking against 8 other ICBs and have identified that the ICB was only 1 of 2 to have 100% of efficiencies identified at the start of the year, with an efficiency target of 5.8% of RRL compared to an average of 3.2% across the other 8.

The average proportion of high-risk schemes as a percentage of all QIPP schemes identified was 46.6% across the other 8 ICBs, compared to the ICB's proportion of 49.8% - with our benchmarking therefore indicating that the level of high risk in the plan was in line with other ICBs.

Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified a significant risk associated with Improving economy, efficiency and effectiveness. Although there is clearly a high level of risk within the QIPP position as at the time of writing this report and there is a risk to achieving the Revenue Resource Limit, this has been raised as a risk as part of our work over Financial Sustainability. We can see that as at Month 10, the ICB has delivered £173m of efficiencies compared to a full year figure of £63m in 23/24, which represents a significant achievement and a large year-on-year increase. The final Month 12 figures show a QIPP delivery of £240m vs a target of £270m (89%), which is a significant delivery and supports our initial risk assessment to not raise a significant risk in this domain.

Recommendations

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

| # | Recommendation | Management Response |
|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | <p>Improving AACC forecasting and performance</p> <p>We recommend that the ICB continues its work to ensure that it is not a national outlier on fast-track referrals & conversion rates – this may be best achieved through a stricter screening process at the clinical level for CHC & Fast Track referrals as well as working with the acute providers to improve Discharge To Access screening to reduce inappropriate CHC referrals. The ICB should also ensure that it clarifies its statutory responsibilities re packages of care and reaches robust agreement with local authorities to ensure it can appropriately forecast cost. There is also scope to review pricing of packages across the region to ensure that the best value for money is achieved from the care providers – for instance through joint purchasing agreements.</p> | <p>L&SC is facing current and future pressures from an ageing population and an increasing cohort of patients with complex health needs at a younger age; combined with the challenges the ICB faces as being a provider of health services to coastal and rural communities. The ICB and the AACC service is operating in challenging circumstances, with increasing demand for CHC. As part of the wider ICB financial recovery programme, service improvements are being made across AACC and this can be seen in the improvement in fast track and CHC as well as conversation rates. The AACC Turnaround Plan includes a structured Waste Reduction Programme (WRP) across all areas of CHC and associated pathways, supported by strengthened grip and control measures such as the 'Triple Lock' panel for clinical oversight, the introduction of financial caps on high-cost packages, and updated policies and procedures to ensure consistent, value-based decision-making. Eligibility conversion rates have reduced significantly in recent months (-39.7% recent conversion rate trend - last three months vs. previous three months), reflecting a more robust screening process. As of M2 (FY25/26) the CHC Eligibility rate for the ICB is 21%. As of M12 FY24/25 the national benchmark for CHC Eligibility is 18%.</p> <p>The ICB has clarified its statutory responsibilities, including those relating to packages of care, in line with the National Framework for NHS Continuing Healthcare and relevant legislation. There is no ambiguity regarding the respective roles of the ICB and Local Authorities. However, discussions remain ongoing with Local Authority partners to reach consistent and robust agreements on the funding of joint packages of care. These discussions aim to support improved forecasting, financial planning, and the reduction of disputes relating to payment responsibilities.</p> <p>There is recognised scope to review and benchmark package pricing across the region to ensure value for money and consistency in provider rates. The ICB is actively exploring opportunities to strengthen market management and improve commissioning efficiency, including through joint pricing approaches with Local Authorities and the use of regional frameworks where appropriate. This work will also support efforts to reduce unwarranted variation, enhance leverage in provider negotiations, and improve cost control across care settings.</p> <p>Due Date: Ongoing</p> <p>Responsible Officer: Sam Proffitt, Acting Chief Executive</p> |

Recommendations

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

| # | Recommendation | Management Response |
|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2 | <p>Establishing a stronger culture of system working and accountability</p> <p>We recommend that the culture of system wide working, and accountability is further embedded to build upon the IAG structure that has been enhanced during 24/25. This should ensure that providers are fully held accountable for delivery of CIPs and any deterioration of financial position, as well as scrutinising deviations from plan.</p> <p>Additionally, whilst the NHSE Undertakings dashboard will help to ensure the ICB can comply with the undertakings, it is in its infancy and will require further revision to fully capture the actions required & stakeholders that need to be engaged.</p> | <p>The recommendation is acknowledged and needs to be considered in light of the national NHS reforms and the respective roles of the ICB and NHSE in relation to provider oversight. In terms of enforcement undertakings, the ICB is working closely with NHSE to agree exit criteria and NHSE oversight.</p> <p>Due Date: Ongoing</p> <p>Responsible Officer: Stephen Downs, Interim CFO</p> |

Prior year findings

Significant weaknesses followed up from the prior year

In our annual auditor’s report for the financial year 2023-24 we reported that the ICB had a significant weakness in arrangements over financial sustainability, linked to the approval of a plan with unreasonably large levels of high risk. 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>Ensuring an appropriate financial plan approval process is implemented and documented</p> <p>Given the high levels of financial risk within the 23/24 plan – the significant cost savings needed to ensure this was achievable - and the amount by which the ICB & system has missed the initial targets, we have identified a significant weakness relating to the approval of a plan with significant levels of high risk.</p> <p>We note that there is evidence in the Board minutes that it was flagged that some of the mitigations to achieve the 2023/24 plans contained high levels of risk, however the Board then note and approve this as part of the wider plan approval process. As such there is a risk that throughout the year the ICB is unable to effectively meet and monitor financial targets and plans given the challenging assumptions made. This is especially evidenced by how quickly the planned position deteriorated during 2023/24.</p> <p>We recommend that the Board should only approve future financial plans with reasonable levels of risk and where necessary, explicitly state that the submitted plan has been agreed to satisfy external requirements even where the Board does not believe a plan is achievable, if that is the most realistic conclusion to be drawn.</p> | <p>When approving the 2023/24 plan, the Board was fully aware of the level of risk associated with achieving its statutory financial responsibility of break-even. The deficit reported was driven by higher than expected levels of inflation for Prescribing and Continuing Health Care packages which were significantly more than the nationally mandated planning assumption uplifts.</p> <p>In developing the 2024/25 plan, the Board have been fully appraised on the recurrent underlying position, the assumptions applied and the deliverability of the QIPP target in order to deliver the ICB’s share of the agreed system deficit control total. For 2024/25 final plan sign off, the Chief Finance Officer will ensure the Board are fully briefed on the risk associated with delivering the plan both in terms of national assumptions and delivery of ICB QIPP plans. As in 2023/24, detailed monthly reports will be provided to Finance and Performance Committee for scrutiny and assurance with updates to ICB Board as part of the system finance report.</p> | <p>Completed.</p> <p>The ICB has remained within its Revenue Resource Limit for 24/25 and has delivered substantial QIPP savings beyond anything achieved in previous years. As such we are satisfied that the 24/25 approved plan did not contain unrealistic assumptions or unreasonably high levels of risk.</p> |



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