



# Auditor's Annual Report 2023/24

Lancashire Teaching Hospitals NHS Foundation Trust

—

27 June 2024

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## KEY CONTACTS

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This report is addressed to Lancashire Teaching Hospitals NHS Foundation 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 Lancashire Teaching Hospitals NHS Foundation 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<sup>th</sup> 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 page 7-9.</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 nothing to report in this regard.</p>
<b>Other reporting</b>	<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 as being relevant to NHS Foundation 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 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>Fraud risk from expenditure recognition: Liabilities and related expenses for purchases of goods or services are not completely recorded</b></p> <p>As the Trust and system is set a financial performance target by NHS England there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that the control total has been met.</p> <p>The setting of a financial performance target can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. Management agreed a revised forecast of £51.5m deficit in December 2023 (£15.3m deficit agreed in original approved plan in May 2023). This was further reduced to £35.6m following additional funding from the ICB. Internal forecasting had assumed a worst case of £62m deficit. The pressure to meet a more favourable deficit means the Trust is incentivised to understate expenditure accordingly.</p> <p>We consider this would be most likely to occur through omitting accruals in order to mitigate financial pressures in the current year.</p>	<p>We have performed the following procedures in order to respond to the significant risk identified:</p> <ul style="list-style-type: none"> <li>- We assessed the design and implementation of controls for ensuring the completeness of accruals, including those controls for ensuring the cut-off of non-NHS expenditure is correct, to ensure it was captured in the correct financial year.</li> <li>- We inspected a sample of invoices of expenditure and payments made, in the period after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period;</li> <li>- We inspected a sample of cash expenditure recorded in the bank statement in the post balance sheet and reviewed associated evidence including invoices where applicable to test for unrecorded liabilities.</li> <li>- We inspected journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value could be agreed to supporting evidence</li> <li>- We performed a year on year comparison of the accruals made in the prior year and current year and challenged management where the movement is not in line with our understanding of the entity</li> </ul>	<ul style="list-style-type: none"> <li>- Through our testing of invoices posted and expenditure posted after year end in April and May, we did not identify any expenditure that should have been recognised in 2023-24.</li> <li>- We have identified accruals that have been omitted from the position at 31 March 2024. The trust has introduced new accounting policies in year whereby they no longer accrue for items less than £5k or greater than 6 months old. They have also adopted the position to not accrue for specific manual accruals they deem to be immaterial, for example holiday pay accrual</li> <li>- Whilst not responding to the significant risk we also carried out substantive testing over the existence and accuracy of accruals posted as at 31 March 2024. Our testing is ongoing, however to date, we have found no evidence of understatement of those transactions.</li> <li>- Management established a process during 2022/23 to review aged accruals on a monthly basis and ensure that old accruals (more than 6 months old) that are unlikely to be invoiced are removed from the accruals balance. This process enhances the control environment around accrued expenditure at each month end, but having documented this under ISA315 we consider that this is not formally documented in a way that represents a formal Management Review Control on which we can place reliance in line with International Standards on Auditing</li> </ul>

# 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>Management override of controls: Fraud risk related to unpredictable way management override of controls may occur</b></p> <p>Professional standards require us to communicate the fraud risk from management override of controls as significant.</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.</li> <li>- Assessed accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;</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 were outside the component's normal course of business, or were otherwise unusual.</li> <li>- We analysed all journals through the year to identify journals displaying high risk characteristics. We performed testing over each of these journals in order to assess the appropriateness and accuracy of the transactions posted; and</li> <li>- We tested the completeness of the related parties identified and assess whether relevant transactions had been appropriately disclosed within the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>- Under the requirements of ISA315r, we conduct a detailed evaluation of the design and implementation of controls around journal entries. This identified that the ledger system permits reviewers / approvers of journal entries to make any amendments they wish to the journal entry before approval/posting. We are therefore unable to rely on controls around segregation of duties in journal entry processing.</li> <li>- We identified 27 journal entries and other adjustments meeting our high-risk criteria – our testing has not identified any inappropriate entries</li> <li>- We evaluated accounting estimates, including the consideration of the valuation of land and buildings and did not identify any indicators of management bias</li> <li>- We have not identified any significant unusual transactions.</li> <li>- Our evaluation over the design and implementation of related party controls identified there is no formal, documented control in place to authorise or approve significant related party transactions before they are entered into. Many of the related party transactions are through the normal course of business, however audited entities are required to have an identified control in place to formally authorise significant related party transactions</li> </ul>

# 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>Valuation of Land and Buildings:</b> The carrying amount of revalued Land &amp; Buildings differs materially from the fair value</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 value of the Trust's land and buildings at 31 March 2023 was £261m, of which £244m are valued as specialised assets at depreciated replacement cost.</p> <p>Judgemental assumptions are made by management with regards to identifying and applying impairment indicators to the property, plant &amp; equipment.</p> <p>The Trust carried out a full revaluation of its land and buildings in year. The last full revaluation took place on 31 March 2019.</p>	<p>We have performed the following procedures designed to specifically address the significant risk associated with the valuation:</p> <ul style="list-style-type: none"> <li>- We critically assessed the independence, objectivity and expertise of Cushman and Wakefield, 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 verify 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 confirmed the independence, objectivity and expertise of Cushman and Wakefield, the Trust's valuation advisors;</p> <p>We confirmed that the valuation approach taken by the Trust was consistent with the requirements of the RICS Red Book and the GAM;</p> <p>We have not identified any misstatements from our work on this significant risk, and we have determined that the assumptions made by your valuers and adopted by you are balanced overall</p> <p>We noted increased documentation of scrutiny by management around the draft valuation presented by Cushman and Wakefield. While this management review was not documented in a way that represents a formal Management Review Control on which we can place reliance in line with International Standards on Auditing, this represents continuing the strengthening of the Trust's control environment around the year-end valuation of land and buildings.</p> <p>We confirmed the Trust's disclosures around the valuation of land and buildings were satisfactory.</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
Commentary page reference	13-17	18-19	20
Identified risks of significant weakness?	Yes	No	No
Actual significant weakness identified?	No	No	No
2022-23 Findings	No significant weakness identified	No significant weakness identified	No 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 £1.1bn 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

Lancashire Teaching Hospitals NHS Foundation Trust is a large acute Trust providing district general hospital services to over 395,000 people in Chorley, Preston and South Ribble and specialist care to 1.8m people across Lancashire and South Cumbria. The Trust provides care across four facilities in Preston and Chorley

The Trust is part of the Lancashire and South Cumbria Integrated Care System (ICS).

In April 2023, the ICB confirmed a system-wide deficit target of £95m which required the Trust to develop a £24.3m deficit plan. Following approval by the Board in May and submission to NHSE, the Trust received £9.0m of non-recurrent support funding bringing the deficit plan down to £15.3m. This was subsequently revised to £0.4m following additional non-recurrent support in December 2023.

The Trust continued to face increasing pressure from unfunded emergency beds, driven by the number of patients not meeting the criteria to reside remaining high throughout the year. The Community Healthcare Hub at Finney House continues to provide additional out of hospital bed capacity and the introduction of virtual wards have helped to ease some of capacity pressures but further system work is still needed.

At the year end, the Trust achieved a revised deficit target of £35.6m as agreed with the ICB in December 2023. Despite the level of risk in the underlying CIP plans the Trust delivered cost improvement plans totalling £38.8m; 80% of the £48.5m target; the recurrent full year delivery being £36.9m (76% of full year target).

Whilst the outturn was £35.2m 'off-plan' the exit run rate deficit position at the end of FY2023/24 was £68.5m, a £28.8m reduction in the underlying deficit.

The Trust's financial plans for 2024-25 have been based on the 2024-25 national planning guidance. As part of the Lancashire and South Cumbria ICS, the trust's focus is driving towards financial sustainability over a three-year period. It is recognised system-wide transformation is needed to deliver these longer-term savings.

# 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 Plan 2023-24***

The financial plan for 23/24 was created in accordance with NHS planning guidelines, in addition to ICS-wide principles. We saw appropriate review and approval by budget holders as well as at the Trust level by the Board of Directors. The final plan for 2023/24 was approved on 9 May 2023, with the Board receiving a presentation on the key facets of the plan and how it linked with national priorities and the priority workstreams set out by the ICS (now ICB).

The deficit plan presented at the March 2023 Board meeting was £65.2m. This was rejected by the ICB. LTH on the advice of the ICB then increased its cost improvement target to 5.5% resulting in a forecast deficit of £53.8m. At this point the ICB submitted a plan update to NHS England with a combined deficit of £167m. This was also rejected by NHS England.

Following further negotiations with the ICB and NHSE, the trust set a final plan for 2023/24 at a deficit of £24.3m which was a significant improvement on the initial submission of £65.2m deficit. This did however assume cost savings of £67m, comprising a £48.5m financial improvement target and a 'system stretch' target totalling £18.5m. In turn, risks associated with the financial plan increased from £47.8m to £75.2m. Following initial submission to NHSE, LTH received £9.0m of non-recurrent support funding bringing the deficit plan down to £15.3m.

There was clear reporting to both Board and Finance and Performance Committee (FPC), at that time and in the period leading up to finalisation of the plan. The CQC did however note in its recent report (November 2023) 'the board signed off a cost saving target of £67m without a plan detailing how this would be achieved. Together with the local health economy, the Trust Board accepted a stretch target from the ICS and at the time of the inspection there was little assurance of schemes that supported this. This represents a significant risk to the trust delivery of its financial plan'. The Board acknowledged itself that the system gap, which was driven by a balance of the remaining unfunded infrastructure and shortfalls, had few robustly identified solutions. Equally, the Board voiced concern that it would be challenging to sign up to these plans without some form of mitigation articulated and in place.

However, it was evident in the Financial Plan that mitigations were presented for the remaining £48.5m of the cost savings target which were within the trust's control, alongside the proposed CIP schemes. We are satisfied that whilst the Trust accepted a stretch target of £18.5m, the risks over achievability were appropriately considered and ultimately, it was adopted at the request of the wider system.

## ***Financial performance 2023-24***

At the year end, the Trust achieved a revised deficit target of £35.6m as agreed with the ICB in December 2023. The trust had received additional support funding during the financial year which meant the plan deficit had been revised to £0.4m. Whilst the outturn was £35.2m 'off-plan' the exit run rate deficit position at the end of FY2023/24 was £68.5m, a £28.8m underlying deficit reduction and broadly in line with the £65.2m deficit plan originally presented in March 2023.

# 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 performance 2023-24 (cont.)***

Equally, we were satisfied that throughout 23/24 the budget monitoring process and associated committee scrutiny was sufficient to identify and analyse pressures that could present risks to the Trust in achieving the financial plan. Through our review of relevant Board and FPC sub-committee meeting minutes we found that financial and operational performance was appropriately challenged.

Divisional progress is monitored through the Divisional Improvement Forums and the progress of the transformational programmes is monitored through the Transformation and Recovery Board and reported to Board through FPC. We have reviewed the terms of reference for the FPC, the Transformation and Recovery Board and Divisional Improvement Forums, as well as minutes throughout the year and note that there is adequate reporting of the actual and forecast financial impact of the efficiency schemes in place, along with detail of the relevant financial RAG ratings. We are therefore satisfied that the scope of reporting is sufficient to enable management to monitor cost performance and identify areas for efficiency savings.

We have reviewed the terms of reference for the FPC, the Transformation and Recovery Board and Divisional Improvement Forums, as well as minutes throughout the year and note that there is adequate reporting of the actual and forecast financial impact of the efficiency schemes in place, along with detail of the relevant financial RAG ratings. We are therefore satisfied that the scope of reporting is sufficient to enable management to monitor cost performance and identify areas for efficiency savings.

## ***Cost Improvement Programme (CIP) monitoring***

In the month one finance report presented at FPC on 23 May 2023, a total of £22.3m improvement schemes had been identified as delivered or low risk, £5m medium risk and £17.3m deemed high risk or unidentified. Despite the level of risk in the underlying CIP plans the Trust delivered cost improvement plans totalling £38.8m; 80% of the £48.5m target; the recurrent full year delivery being £36.9m (76% of full year target). When benchmarked against other trusts – see efficiency benchmarking on page 15 – the trust's recurrent delivery has been very positive. The benchmarking does however show overall delivery against plan was at the lower end of the benchmark population

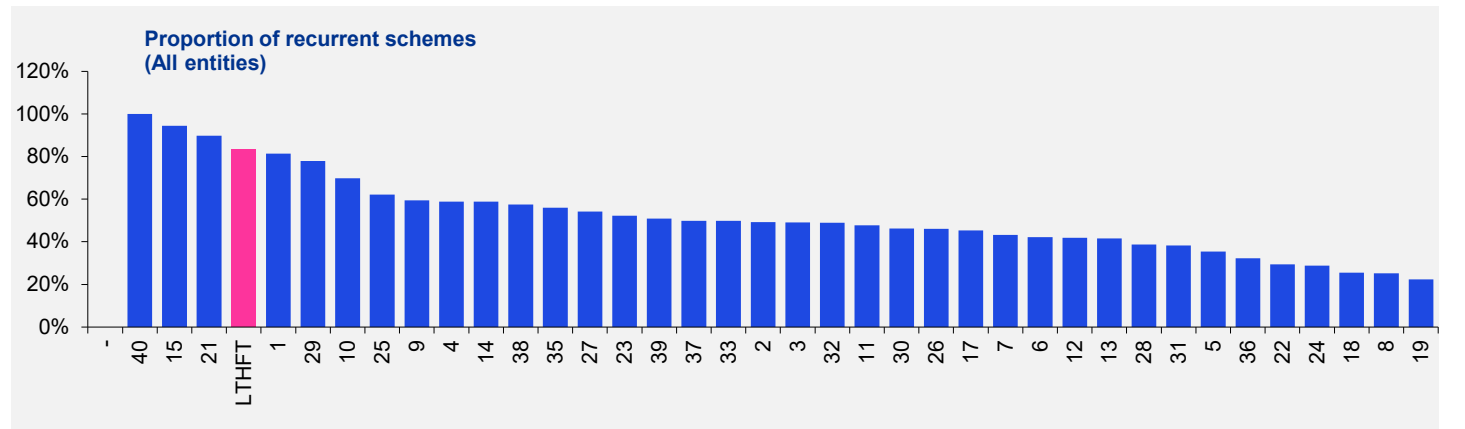
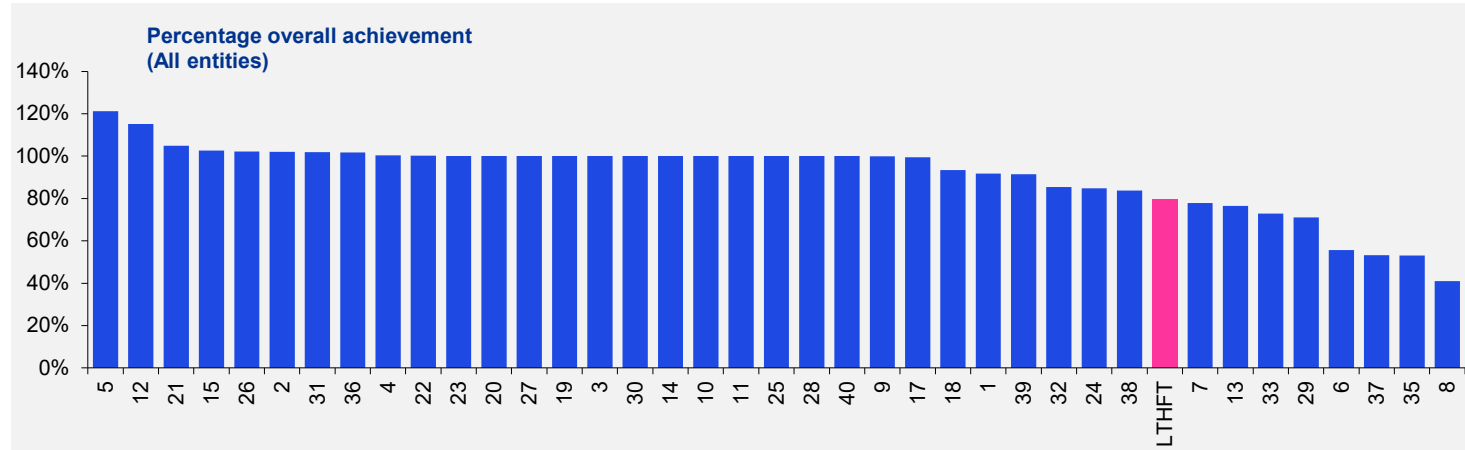
In 2023/24 we have seen regular monthly monitoring of CIP performance against targets at an individual scheme level and Trust level through FPC and to the Board, with more detailed monitoring taking place via Divisional Improvement Forums and at the Budget Holder level through monthly meetings. There is evidence that Quality Impact Assessments are completed for approved efficiency schemes.

# Financial Sustainability

## Efficiency schemes benchmarking

We have benchmarked the Trust's efficiency schemes performance in 2023/24 against KPMG's other NHS provider audited entities.

- Most of the Trusts in our sample achieved or exceeded their scheme in full, noting this was using a combination of recurrent and non-recurrent schemes.
- The second graph demonstrates, however, that the Trust was in the upper quartile of the provider comparator group in terms of the percentage of savings delivered recurrently.



# 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 planning 24-25 and beyond*

As at the end of March, the current exit run rate for 2023-24 reported by providers in Lancashire and South Cumbria was a deficit of £276m against an initial deficit plan of £80m. NHS England clarified that they would reject any plan that is higher than 2023-24 headline outturn and as such the Integrated Care Board were aiming for organisations to plan on a combined deficit of c£190m.

We have reviewed the 2024/25 Financial Planning Update which was presented to the 26 March 2024 FPC (and subsequently to Board of Directors' meeting on 4 April), which summarised the initial financial plan for the Trust for 2024/25, the drivers of the gap and the measures necessary to address the position. The report presented details of the underlying deficit being brought forward from 2023/24, as well as additional in-year pressures that are impacting on the expected £24.3m deficit for 2024/25.

It was acknowledged taking costs out of the system requires a coordinated system-wide response, and through the Emergency, Elective and Outpatients Transformation Boards significant pieces of long-term work are underway to redesign services to reduce the recurrent costs of delivery across the system. In view of the long-term nature of many of the identified solutions, achievement of an in-year FIP target of this magnitude is subject to considerable risk

## *Financial Recovery Plan (FRP)*

The deficit target of £24.3m included a financial improvement plan of £58.0m comprising core cost improvement of £41.4m, income/productivity of £8.3m and place based optimisation/risk management of £8.3m. Similar to 23-24, the plan contains an element of system-wide stretch, the trust is therefore reliant again on system-wide transformation. We are satisfied however that the Board is sighted on the underlying risks.

Management have demonstrated responses to the two external reviews which carried out at the start of the 23-24 financial year and have presented an update on progress against the recommendations that are either closed or completed. Alongside the Financial Recovery Plan, the Trust has committed to the development of a Single Improvement Plan which bring together the Trust's priorities for the next three years into one comprehensive delivery plan. Financial Sustainability forms one of the key strands of this plan.

To assist with the delivery of the FRP, a Turnaround Director joined on the 1st April 2024 and is working at pace with the Executive and Trust colleagues to assess the current position, deep dive into short, medium and long term opportunities, and re-set the programme with robust structure and governance.

To have a credible plan, it is proposed the Trust should have around 20% more than FRP programme identified to enable mitigation for slippage, which means the Trust should be aiming to identify a further c£12m this year bringing a total identified savings value to £70.8m. This means the current gap is realistically c.£58m.

# Financial Sustainability

## Financial Recovery Plan (FRP)

As at 13<sup>th</sup> May, the trust had identified £49.2m of schemes for 24/25 but with only £12.5m of schemes green or amber with any confidence of delivery. £20m (41%) were considered high risk and £16.6m (34%) described as 'hopper' (outline plan).

### Conclusion

Despite a deterioration in the outturn position from the Plan agreed in May 2023 and the underlying risk associated with the Plan, we concluded that the arrangements in place were appropriate and did not indicate a significant weakness in arrangements over financial sustainability.

Similarly, whilst acknowledging the significant level of risk in the 2024-25 financial plan, and the challenge in drawing up cost improvement schemes that will deliver recurrent savings, our assessment is the trust has appropriate arrangements in place to address these challenges.

Key financial and performance metrics:	2023-24	2022-23
Planned surplus/(deficit)	(£0.4m)	(£20.7m)
Actual surplus/(deficit)	(£35.6m)	(£20.4m)
Planned CIP as a % of spend	5.5%	3.8%
- Recurrent	48.5m	£15.8m
- Non-recurrent	-	£10.5m
Actual CIP as a % of spend	4.5%	3.3%
- Recurrent	£32.3m	£9.9m
- Non-recurrent	£6.4m	£16.4m
Year-end cash position	£36m	£14.5m

# 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

## *Risk Management*

The key element of the risk management process at the Trust is embodied in the Board Assurance Framework (BAF). We have reviewed the BAF at various stages throughout the year to ensure that strategic risks are appropriately included and we are satisfied that these risks are regularly discussed and challenged at Trust board meetings. The Trust's risk assessment criteria, outlined in the Risk Management policy, are used to assess all risks to ensure a consistent methodology is used.

We have inspected the Corporate Risk Register and note that this gives strong coverages of ongoing risks, showing that the Trust has appropriate processes for monitoring the implementation and effectiveness of actions to address identified risks.

The CQC were complementary about the risk processes in place at the trust, noting the trust had processes to escalate relevant risks and they observed sufficient challenge of the key areas of risk at the Board meeting they observed. However, they did note 'risks in the management of mental health patients were not always dealt with appropriately or quickly enough. There were other examples where we saw a breakdown in processes which led us to question the robustness of existing systems and wider organisational learning'.

## *Financial planning and monitoring*

Our commentary on the review and approval of the 2023-24 financial plan is included on page 13. In respect of the process for monitoring against budgets, financial forecasts are based on the run rate plus known impacts as discussed in budget holder meetings.

We have reviewed FPC and Board minutes as well as the attached papers throughout the financial year. We are satisfied that there is sufficient ability for committee and Board members to take informed decisions based upon the detail provided in the attached papers. These papers also demonstrate that with respect to financial risks reported and recommendations made, there are detailed discussions occurring to challenge and analyse the information presented.

## *Compliance with laws and regulations*

Through our review of the Standing Financial Instructions (SFIs) we are satisfied that these detail the roles, responsibilities and delegation of the various committees, and that this gives an appropriate escalation framework for making key decisions.

The Trust has a Local Counter Fraud Specialist who undertakes anti-fraud activities throughout the year and reports into the Audit Committee. Other key arrangements designed to detect fraud such as Whistleblowing Policy, Freedom to Speak Up and associated governance features are well embedded within the organisation.

# Governance

Reviews for compliance with the staff code of conduct, laws & regulations and the Trust's constitution is completed via the Audit Committee, Board meetings and other governance structures as identified through our testing. We have made one low-priority recommendation on Page 19 regarding the fact that the Standards of Business Conduct and Recruitment & Selection Policies are now beyond their target review dates and should be refreshed.

## CQC

The CQC published their latest report on 24 November 2023. The overall rating for LTH was again Requires Improvement. Safe, effective and responsive were again rated requires improvement. Caring was re-rated as good, but well-led has declined from good to requires improvement.

We note from our review of the Board and Safety and Quality Committee papers throughout the year that there has been sufficient reporting and delivery against the Quality Improvement Plan which is the Trust's document for collating and monitoring delivery of the 'Must Do' and 'Should Do' recommendations raised by CQC in previous reports. Actions are RAG-rated and an update provided bi-annually to both the Safety and Quality Committee and Trust Board to provide assurance on the work being undertaken to address the risks identified.

Management presented the CQC Action Plan for 23-24. In total, the Trust received 54 recommendations in the form of Must Do's or Should Do's (18 Must Do's and 36 Should Do's). Some recommendations are duplicated across the different core services. Upon streamlining, there are 44 recommendations in total (13 Must Do's and 31 Should Do's). This must-do actions are central to the Single Improvement Plan across multiple domains including Well-Led, Safety and Quality and People & Culture. The latest version of the action plan confirmed all Must-Do actions were either complete or on-track to deliver within timescale.

## Conclusion

We have not identified any significant weaknesses in the trust's governance arrangements.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	None	None
Head of Internal Audit Opinion	Substantial	Substantial
Oversight Framework segmentation	3	3
Care Quality Commission rating	Requires Improvement	Requires Improvement

# 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.

Non-financial performance is scrutinised regularly by the Executive Team with specific follow up of non-compliant metrics and associated recovery plans. Non-financial performance is formally reported and scrutinised via the Integrated Performance Report to the Board on a monthly basis, as well as detailed reports on Finance, Workforce, Safety & Quality being presented to each meeting of the respective Board sub-Committees. We have reviewed examples and evidence of this in action and consider it to be appropriate.

In terms of developing and assessing plans relating to major decisions, we have reviewed the activity of the Finance function regarding the preparation of business cases, and satisfied that there is a standard business case template and guidance being utilised. The Trust has the required number of staff trained to NHS Better Business Cases training standards, and business case guidance and templates include the need to have strategic, management, economic and financial relevance. Quality / Equality Impact Assessment is required for all business cases.

Specifically we inquired over the approval of East Lancashire Financial Services (ELFS) transfer which took place in July 2023. ELFS operate as an NHS hosted service and employ c240 staff with a turnover of c£10m. The Board of Directors received an initial report on the arrangements for transferring ELFS from the Northern Care Alliance (NCA) to the Trust, in November 2022, which enable an agreement in principle decision subject to due diligence and completion of a satisfactory Business Transfer Agreement (BTA). This was approved by the Board in April 2023 and we were satisfied there was appropriate scrutiny and challenge over the decision making process.

There is an appropriate framework for monitoring of the performance of subcontractors depending on the scale of the contract (e.g. a whole clinical service versus a single specialty). We reviewed contract / performance review documentation pertaining to three different contracts of differing size and scope, and consider that the monitoring systems and processes in place are designed and implemented appropriately.

The Trust works closely with the other providers within the Lancashire and South Cumbria (L&SC) system through a prominent role on the Provider Collaborative Board, with the Trust's Chief Executive (CE) being the lead CE for the Provider Collaborative among numerous other Board-level links with both the providers in L&SC and the ICB. The Trust interfaces with the ICB on a regular basis both in terms of providing accountability for in-year performance but also with respect to strategic planning for 2024/25 and beyond. The Trust is taking a lead role on numerous projects aimed at increasing collaboration and therefore removing costs from the L&SC system, for example as the Lead Provider for the Pathology Collaborative.

The Trust has undertaken a number of initiatives during the year to redesign services and ease pressure on the urgent and emergency care system locally. During the Covid-19 pandemic the Trust's capacity expanded, with the support of non-recurrent resource. However the challenge is now to remove that additional capacity given that the funding for it is no longer available.

## **Conclusion**

We have not identified a significant weaknesses associated with Improving economy, efficiency and effectiveness



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