

Item: 15

REPORT CLASSIFICATION	✓	CATEGORY OF PAPER	✓
Official	✓	Proposes specific action	
Official: Sensitive Commercial		Provides assurance	✓
Official: Sensitive Personal		For information only	

## BOARD

29 JULY 2025

### Report Title:

**NENC ICB and ICS Finance Report – M2 2025/26**

### Purpose of report

To provide an update on the financial performance of the North East and North Cumbria Integrated Care Board (NENC ICB) and NENC Integrated Care System (ICS) in the financial year 2025/26 for the two months to 31 May 2025.

### Key points

#### ICS Revenue Position:

As at 31 May 2025, the ICS is reporting a year-to-date deficit of £19.52m compared to a planned deficit of £22.03m. The favourable variance to plan of £2.52m largely reflects a one-off benefit of £6.5m relating to a land sale in one provider trust which was planned for later in the financial year. Excluding that benefit, the ICS financial position would be behind plan year to date.

Several providers are experiencing strain due to lower-than-expected efficiencies early in the year, ongoing use of escalation beds, and decreased elective activity.

Across the ICS, total efficiencies of just over £82m have been delivered for the two months which is £4.65m behind plan. In addition, recurrent efficiencies are £9.3m behind plan for the two months, across several organisations particularly Newcastle Hospitals and South Tees Hospitals, contributing to pressures on the underlying financial position.

#### ICB Revenue Position:

As at 31 May 2025 the ICB is reporting a year-to-date surplus of £2.97m compared to a plan of £1.97m, a favourable variance of £1m which largely reflects underspends on staffing costs due to vacancies.

Pressures are being seen on mental health budgets relating to ADHD/ASD assessments with an overspend of around £1m for the first two months. This is a continuation of the pressures seen in the prior year especially in the last quarter. The total annual budget for ADHD/ASD 'right to choose' (RTC) providers amounts to just under £10m, which was set based on forecast 2024/25 costs. Further work is required to review those costs to identify any potential impact relating to 2024/25. There is a growing risk that costs in this area may significantly exceed budget and a mitigation plan is being produced for the Executive Committee to consider. Indicative activity plans are being prepared for all ASD/ADHD RTC providers be based on previous years activity and a total budget envelope of £10m. Alongside this, an accreditation process is being implemented with a NENC specification and tariffs which will be offered to current RTC providers. This should bring consistency in tariffs across providers (with tariffs being on

average approx. 20% lower than current RTC tariffs) as well as an agreed local specification which has been agreed with CNTW and TEWC and would provide a more streamlined service.

At present, despite early pressures being identified, the ICB is forecasting a surplus for the year of £11.8m in line with plan.

Lastly please note at this stage of the year there is always very limited data available for the majority of commissioned services, with a time lag of two months in respect of prescribing data and other activity based contract information.

### **ICB Running Costs:**

The ICB is reporting a year-to-date underspend on running cost budgets of £0.9m reflecting current vacancies within the ICB. A breakeven position is currently forecast against running cost budgets. There is significant uncertainty around the potential impact in 2025/26 of the ongoing ICB transition process and need to make cost reductions to meet the NHSE target spend per head of £18.76 in 2026/27, with potential significant additional transition costs for example which may impact the running cost position in 2025/26.

### **ICS Capital:**

For 2025/26, there is no longer a separate IFRS 16 capital budget, and the overall provider operational capital budget includes capital cover for IFRS 16 requirements. At month 2, the ICS capital spending forecasts are currently underspending by £15.86m, relating to additional funding for operational UEC prior year performance where plans for utilisation of this additional funding are still to be agreed by the system. It is forecast this funding will be utilised to bring capital spend in line with funding by year end.

### **2025/26 System Business Rules:**

Attached at Appendix 1 for information is a summary of updates to the 2025/26 system business rules published by NHSE. This confirms that deficit support funding will be issued on a quarterly basis but is subject to an NHSE assessment that the system remains on track to deliver the plan position, i.e. funding needs to be earned. For NENC, total deficit funding in the 2025/26 plan was £33.3m. Funding for Q1 and Q2 has been received to date (£16.7m in total).

The system business rules confirm that if a system does not deliver its agreed plan position for 2025/26, the full value of the deficit position and any support funding that has been issued during the year will be added to the system cumulative position and subject to repayment in future years (over a period of three years).

All systems that deliver their plan position will not be required to repay the support funding issued to them.

### **Spending Review:**

The government released the results of the 2025 spending review in June 2025 which set out departmental budgets for revenue for three years (until 2028/29) and capital for four years (until 2029/30). Attached at Appendix 2 for information is a summary of the spending review outcome.

Over the spending review period, the NHS will receive a 3.0% real terms growth in day-to-day spending, with capital budgets held flat in real terms.

While the health funding increases could be considered generous in comparison to other departments, they are lower than long term averages and lower than the increases the Autumn 2024 budget set out between 2023/24 and 2025/26. Much of the expected cash increase in funding is likely to be required to cover pay rises and NHS inflationary pressures that often exceed the Consumer Price Index. The NHS financial settlement includes a required 2% productivity improvement each year.

## **Risks and issues**

A number of potential financial risks were identified within the financial plan, both for the ICB and wider ICS, totalling £437m. Net unmitigated risk in the plan amounted to £244m across the system although there was inconsistency in recording of risk across the ICB. Risks largely related to the delivery of required efficiency plans which are higher than those delivered in 2024/25.

ICB risks at plan included pressures on prescribing, ongoing healthcare costs, and meeting demanding efficiency targets.

At month 2, ICS gross risk has reduced to £357m although reported net risk increase (after mitigations) to £266m. This will be reviewed in month 3 to remove any potential double counts of efficiency risk which we anticipate will reduce the net risk position. The ICS Directors of Finance also recently agreed improvements in processes to review and ensure better consistency and accuracy of risk reporting.

For the ICB, net risk amounted to £33m at plan and has reduced to £30m at month 2

Work continues to review the position across the system and seek to identify further mitigations along with more consistent reporting of risk across organisations.

The ICB and Providers will be updating the medium-term financial plan in line with NHSE time frames and expected guidance over the next few months.

### Assurances and supporting documentation

ICB finance teams will monitor and report monthly on the ICB risks noted above. This will include actions being taken to mitigate these risks.

The ICB Chief Finance Officer meets monthly with the ICS Directors of Finance to review the ICS finance position, net risks and mitigations.

The financial position of both the ICB and the wider ICS will continue to be reviewed in detail monthly by the ICB Executive Committee as well as at the ICS Chief Officers forum on a regular basis.

The System Recovery Board will continue to oversee the delivery of the agreed financial recovery programme and receive assurance on the delivery of organisational efficiency plans. A dedicated ICS transformation director supporting financial recovery is in place to support the delivery of the efficiency programme across the system working closely with the FT Provider Collaborative.

### Recommendation/action required

- The Board is asked to:
- note the latest year to date and forecast financial position for 2025/26,
  - note there are a number of financial risks across the system still to be managed.

### Acronyms and abbreviations explained

ADHD – Attention Deficit Hyperactivity Disorder  
 ASD – Autism Spectrum Disorder  
 ARRS – Primary Care Networks Additional Roles Reimbursement Scheme  
 BPPC – Better Payment Practice Code  
 CHC – Continuing Healthcare  
 ERF – Elective Recovery Fund  
 FT – NHS Provider Foundation Trust  
 ISFE – Integrated Single Financial Environment (financial ledger system)  
 MHIS – Mental Health Investment Standard  
 NHSE – NHS England  
 QIPP – Quality, Innovation, Productivity and Prevention  
 POD – Pharmacy, Ophthalmic and Dental  
 YTD – Year to Date

<b>Executive Committee Approval</b>	08.07.25
<b>Sponsor/approving executive director</b>	David Chandler, Chief Finance Officer
<b>Date approved by executive director</b>	21.07.25

<b>Report author</b>	R Henderson, Director of Finance (Corporate) A Thompson, Senior Finance Manager					
<b>Link to ICP strategy priorities</b> (please tick all that apply)						
Longer and Healthier Lives						
Fairer Outcomes for All						
Better Health and Care Services						
Giving Children and Young People the Best Start in Life						
<b>Relevant legal/statutory issues</b>						
Note any relevant Acts, regulations, national guidelines etc						
<b>Any potential/actual conflicts of interest associated with the paper?</b> (please tick)	<b>Yes</b>		<b>No</b>	✓	<b>N/A</b>	
<b>Equality analysis completed</b> (please tick)	<b>Yes</b>		<b>No</b>		<b>N/A</b>	✓
<b>If there is an expected impact on patient outcomes and/or experience, has a quality impact assessment been undertaken?</b> (please tick)	<b>Yes</b>		<b>No</b>	✓	<b>N/A</b>	
<b>Essential considerations (must be completed)</b>						
<b>Financial implications and considerations</b>	The report summarises the latest financial position for both the ICB and ICS.					
<b>Contracting and Procurement</b>	N/A					
<b>Local Delivery Team</b>	N/A					
<b>Digital implications</b>	N/A					
<b>Clinical involvement</b>	N/A					
<b>Health inequalities</b>	N/A					
<b>Patient and public involvement</b>	N/A					
<b>Partner and/or other stakeholder engagement</b>	Position reviewed with system partners via Directors of Finance and Chief Executive meetings					
<b>Other resources</b>	N/A					

## Version Control

Version	Date	Author	Update comments
1.0	08/07/25	Richard Henderson	Updated based on Exec Committee report
2.0	14/07/2025	David Chandler	V2 – track on – for review please
3.0	14/07/25	Richard Henderson	Final version updated for DC query
4.0	17/725	David Chandler	Reviewed
5.0	21/07/25	Richard Henderson	Updated system business rules added as appendix.
6.0	21/7/25	David Chandler	Reviewed - Final