

Meeting:	NHS Grampian Board Meeting
Meeting date:	12 December 2024
Item Number:	13
Title:	Update on NHS Grampian Financial Position
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1 Purpose

This is presented to the Board for:

- Discussion
- Assurance

The Board is asked to:

- **Note** – that NHS Grampian has a revenue overspend of £39.0 million at the end of October 2024 and a projected revenue overspend for the year of £73.1 million.
- **Note** – that detailed financial planning is underway to set the revenue budget for 2025/26 and refresh the Medium Term Financial Framework, noting the potential scale of the financial challenge facing the Board in future years. This planning will be informed by the Scottish Government budget announcement on 4th December and the output of phase 2 of the external diagnostic review.

This report relates to a:

- Annual Delivery Plan
- Emerging Issue
- Financial Sustainability

This aligns to the following NHS SCOTLAND quality ambition(s):

- Effective

2 Report summary

2.1 Situation

This report is presented to:

- Enable discussion on the NHS Grampian financial position at month 7 2024/25 (October) and the projected year end position for 2024/25;

- Provide an update on the NHS Grampian approach to financial recovery for 2024/25 and the external diagnostic review which has been commissioned for the board.
- Provide an update on the financial planning which is underway to set the revenue budget for 2025/26 and refresh the Medium Term Financial Framework. This planning will be informed by the Scottish Government budget announcement on the 4th December.

2.2 Background

NHS Grampian was unable to set a balanced revenue budget for this financial year as proposals which would have provided financial savings were not taken forward due to their likely significant impact on planned care and unscheduled care services. Our financial plan submitted to Scottish Government projected a financial gap of £59 million after achievement of Value & Sustainability savings of £35 million. The financial plan did not include any allowance for contributions to overspends incurred within the three Integration Joint Boards, with each Integration Joint Board agreeing a balanced budget at the start of the 2024/25 financial year.

The Scottish Government has indicated that it expects the Board not to exceed an overspend level of £59 million and to improve on this if at all possible. It has also set the Board a brokerage limit target of £15.3 million. Brokerage is short term repayable financial support. In 2023/24 NHS Grampian received brokerage support of £24.8 million to cover the reported overspend which is repayable to the Scottish Government at a point in the future when the Board returns to financial balance.

Any deficit above the £15.3 million brokerage level will need to be shown as an overspend in the Board's Annual Accounts for 2024/25. Under section 12F of the National Health (Scotland) Act 1978, NHS bodies have a statutory duty to breakeven against revenue expenditure. By overspending against the revenue budget this year for the first time, NHS Grampian will not meet this statutory duty.

NHS Grampian's challenging financial position is impacted by a number of factors, including:-

- Demographic changes in our population, with a greater proportion of elderly people and patients presenting with greater acuity and co-morbidities.
- Introduction of new technologies (e.g. TAVI Cardiology procedures, insulin pumps), new medicines (e.g. expensive cancer treatments) or new services (e.g. the Covid vaccination programme).
- Recruitment challenges leading high usage of expensive agency staff.
- Increases in our non-pay costs for items such as energy or rates together with high levels of general inflation not matched by funding increases.
- The need to clear the backlog of service demand caused by the Covid pandemic.
- Pressures on unscheduled care services with capacity challenges in primary care and social care.
- The need to cover a share on the overspends of Integration Joint Boards (IJBs).

This report summarises the position at Month 7 (October) and updates on the forecast out turn for 2024/25 which reflects current and ongoing service pressures. The report also provides an update on the external diagnostic review which is taking place.

Finally the report also looks forward to 2025/26 and provides an update on the financial planning underway to set the revenue budget. The scale of the overspend being incurred in the current financial year, along with known new pressures mean that NHS Grampian will enter the 2025/26 financial year with a significant underlying financial deficit before any new savings are reflected in the position.

2.3 Assessment

Financial Position & Forecast

The Finance Report at 31st October (month 7) is attached at Appendix 1.

The Board is reporting an overspend at the end of October (seven months) of £39.0 million on NHS Grampian non-delegated services (i.e. excluding Integration Joint Boards). The level of monthly operational overspend has been stable so far this year at circa £5 million a month which is a reduction on the higher levels recorded at the end of the 2023/24 financial year. All of the main Portfolios remain significantly overspent. Significant service pressures relating to patient flow have continued since the start of the 2024/25 financial year and are contributing to the level of the overspend.

Financial forecasts continue to be updated each month. The forecast for the year based on October results for NHS Grampian non-delegated services is a £58.6 million overspend. This is a £1 million improvement compared to the September forecast largely due to decisions made to support the continued delivery of savings through the Value & Sustainability Programme. Medical locum agency costs have reduced for four consecutive months driven by increased uptake of direct engagement and a reduction in on call rates, agency nursing costs are continuing to show a reduction compared to last year and some corporate areas are now showing underspends due to vacancies being held. The forecast overspend for NHS Grampian's non-delegated services is now slightly below the level of overspend expected from the Board by Scottish Government.

It is now almost certain that NHS Grampian will need to contribute to overspends in the Aberdeenshire and Moray IJBs as part of the risk share arrangements between the Board and the relevant Councils for meeting IJB overspends. There is a significant risk that this figure will need to be increased in future months with the IJBs continuing to see significant financial and service pressures. Based on current projections of their financial positions for 2024/25 a contribution of £14.5 million has been assumed, a small improvement from that reported in September.

These two elements mean that NHS Grampian's total projected overspend for 2024/25 is currently £73.1 million (approximately 5% of budget). This level of projected overspend remains above the £59 million level expectation of the Scottish Government but continues to move in the right direction. Despite this positive movement the Chief Executive Team remain committed to making further improvements in the Board's financial position including a continued focus on delivery of Value and Sustainability workstreams for the remainder of the year and the implementation of the measures

agreed at the September Board meeting to control spend. Additionally it will be vital to avoid further unplanned commitments between now and the end of the financial year.

The Board remains at level 2 of the Scottish Government's Support & Intervention Framework due to the financial position, although the Scottish Government has indicated this will be continually reviewed throughout the year. This is a pre formal escalation stage which entails enhanced monitoring of the Board's financial position by the Scottish Government including quarterly meetings and regular informal calls with Scottish Government colleagues. Based on September results, NHS Grampian still has the highest projected deficit of any Scottish Board (fourth highest in % terms).

Update on Financial Recovery Measures

Value and Sustainability Programme

The Value and Sustainability Programme continues to support the delivery of savings and NHS Grampian is reporting savings ahead of trajectory at October 2024. The Programme reviews progress against the 15 Box Grid which has been developed by Scottish Government as a tool to direct focus when considering savings opportunities as well as efficiency and productivity improvements. A copy of the 15 box grid is included in appendix 2. The Performance Assurance, Finance and Infrastructure Committee are provided with detailed updates on the financial savings achieved through the Value and Sustainability Programme and the work undertaken in the board to take forward key actions outlined in the 15 box grid.

External Diagnostic Review

A detailed scope for phase 2 of the external diagnostic review has now been agreed and work is underway on this review which will focus on:

- a) Potential opportunities to improve our recovery of VAT on payments made for agency medical locums.
- b) Reducing contract spend leakage via Cognitive Contract Management which would involve detailed review of a small number of our largest non-pay contracts.
- c) Non-pay opportunities focussing on control of discretionary spending (travel, postage, printing, subscriptions etc.) and the use of medical supplies to assess opportunities for standardisation.
- d) Advisory input to the estates rationalisation programme.

Findings from this review will be reported in February 2025 and will inform development of the financial plan for 2025/26.

Financial Planning for 2025/26

Financial planning for 2025/26 is taking place in a hugely challenging context with the Board continuing to be impacted by significant service pressures and facing challenge in achieving key performance indicators. NHS Grampian is likely to record its highest ever level of overspend in 2024/25, with the majority of the overspend recurring in nature. Two of the three Integration Joint Boards will also record deficits this year, with the third indicating they are likely to require the use of uncommitted reserves in

2024/25 after the implementation of financial recovery measures and as such will have no reserves to support the financial position in the 2025/26 financial year.

Initial financial projections have been prepared for 2025/26 and outline a significant financial challenge for NHS Grampian. The scale of the challenge is likely to be in excess of £100 million however this will be confirmed following the publication of the Scottish Government's revenue budget for 2025/26 on the 4th December. The delivery of a minimum of 3% recurring savings is likely to be a requirement from Scottish Government, although savings in excess of 3% will be required to move towards financial sustainability.

The Scottish Government wrote to the Board on 9th October and outlined the expectation that for 2025/26 Boards will provide:

- A clear programme of work and supporting actions to achieve recurring savings on baseline budgets;
- An improved forecast outturn position compared to the forecast outturn reported at the start of 2024/25. For NHS Grampian, this would be an overspend position of £59 million.

Given the expected scale of the financial challenge, three workstreams are being taken forward to identify financial savings:

(1). Value and Sustainability Programme

The Value and Sustainability Programme is now well established and delivering savings in a number of key areas to support the current year financial position. It is proposed that the programme will continue to support, and indeed in some areas increase, the delivery of savings in the following areas.

- Supplementary Staffing including overtime, Healthcare Support Worker review, medical locums and agency nursing.
- Doctors in training rota compliance
- Enhanced vacancy controls
- Non pay efficiency including taxi spend, printing and digital letters

The programme will also continue to provide focus and assurance that NHS Grampian are continuing to deliver savings on key themes contained in the Scottish Government's 15 box grid.

(2). Service Change 10%

All non-delegated services have been asked to submit proposals that achieve a 10% reduction in the financial resources needed for service delivery through enacting changes to services. These proposals should be deliverable in 2025/26, cash releasing and must not duplicate savings already targeted through Value and Sustainability Programmes.

These proposals are being considered by the Chief Executive Team as part of the budget setting process. Given the scale of change required, a number of the proposals would represent a redesign of services and it is important that these

changes are considered within the finding balance approach and impact assessed where required.

(3). Route map for Strategic Change

A route map for Strategic Change is being developed to support the redesign needed to achieve financial balance alongside the Board's strategic intent of a sustainable health and care system where enabling wellness and treating illness are more in balance. Further detail is included in a separate report on today's agenda.

Work has been undertaken with senior finance officers in partner organisations to agree how assurance will be provided that the implications of budget savings across partners have been considered in order to help support a whole system approach to financial planning and avoid unintended consequences from any proposals.

Throughout December, the detailed revenue budget for NHS Grampian will continue to be developed. Further updates will be provided at the February Board meeting with the Financial plan presented to the NHS Grampian Board on the 10th April 2025. Monthly informal updates for Board members to outline the progress in agreeing the Financial Plan for next year will continue.

2.3.1 Quality/ Patient Care

The impact of all financial decisions and proposed savings schemes is assessed at the level of individual services and the Chief Executive Team continue to use our 'finding balance' methodology when assessing savings, which ensures that there is a balance between our three main strands of governance and prevention when making decisions.

2.3.2 Workforce

There are both direct and indirect links between the financial position and staff resourcing. Where relevant, the impact of savings schemes on staffing resources is assessed at an individual service level.

2.3.3 Financial

Scottish Government has recognised the financial pressures on all Boards for 2024/25 and beyond and are providing national support to develop initiatives to reduce the overall cost base. NHS Grampian undertakes a full review of all initiatives proposed at a national level. We will continue to work closely with Scottish Government in seeking to balance operational, financial and workforce pressures.

2.3.4 Risk Assessment/Management

There are a number of financial risks which are being currently managed and are highlighted in the detailed financial monitoring in appendix 1.

Risk assessment and subsequent management of these risks relating to financial performance are recorded on NHS Grampian's risk management system and reviewed on regular basis by the Chief Executive Team.

2.3.5 Equality and Diversity, including health inequalities

An impact assessment has not been completed because it is not applicable.

2.3.6 Other impacts

None.

2.3.7 Communication, involvement, engagement and consultation

The Board has carried out its duties to involve and engage both internal and external stakeholders where appropriate through the following meetings:

- Chief Executive Team – weekly update on financial position.
- Performance Assurance Finance & Infrastructure Committee – finance update is a standing item.
- Monthly reporting to the Scottish Government.

2.3.8 Route to the Meeting

This has been previously considered by the following groups as part of its development. The groups have either supported the content, or their feedback has informed the development of the content presented in this report.

- Performance Assurance Finance & Infrastructure Committee – 27th November 2024.

2.4 Recommendations

The Board is asked to:

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3 Appendix/List of appendices

The following appendix/appendices are included with this report:

- Appendix 1 – Finance Report for Month 7 2024/25
- Appendix 2 – 15 Box Grid