

Meeting:	NHS Grampian Board Meeting
Meeting date:	9 October 2025
Item Number:	6
Title:	Finance Report
Responsible Executive:	Alex Stephen (Director of Finance)
Report Author:	Sarah Irvine (Deputy Director of Finance)

1 Purpose and recommendations

This is presented to the Board for:

- Assurance
- Decision
- Endorsement

Recommendations(s):

The Board is requested to:

- **Discuss and note** the update on the Board's financial position for the period to August 2025/26 and the current forecast year end position.
- **Endorse** the revised financial monitoring report, as attached at appendix 1, and make recommendations of any modifications required which would support the oversight of the financial management of the Board.
- **Note** that due to a lack of budget savings being identified through the two financial reviews, it has not been possible at this stage to provide a plan to return to financial balance.
- **Approve** the approach and timeline outlined for the development of the three year Financial Plan and Medium Term Financial Framework.

This report relates to:

- NHS Grampian Strategy: Plan for the Future
- NHS Grampian's Medium Term Financial Framework
- Board Annual Delivery Plan
- Financial Sustainability

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

- Safe

- Effective
- Person Centred

This subject matter of this report is relevant to the mitigation of the following strategic risks (further information provided in the Risk section below)

- Inability to achieve the aspirations set out in Plan for the Future due to financial resource constraints and inefficiencies

2 Report summary

2.1 Situation

The purpose of this report is to provide:

1. An overview of the Board's financial position for the five months to August 2025.
2. An update on the progress of the Value and Sustainability programme including forecast savings for the 2025/26 financial year.
3. Detail of the forecast outturn position for 2025/26 including detail of the risks to delivery of the Board's Financial Recovery Plan.
4. An update on the financial planning underway to develop the Board's revenue budget for 2026/27 and the Board's Medium Term Financial Framework.

The report provides moderate assurance given the current forecast financial position, the scale of the challenge to deliver the financial recovery plan and the requirement to continue to develop mitigating actions to manage the risks highlighted in this report.

2.2 Background

Previous updates to the Board have provided detailed information on the financial challenge currently faced by NHS Grampian and the drivers that have contributed to the deficit position being managed by the Board. NHS Grampian reported an overspend of £65.2 million in 2024/25, the highest financial overspend in value terms across Scotland and the fifth highest in percentage terms. Over the previous two financial years, NHS Grampian have required brokerage totalling £90 million from the Scottish Government to deliver within our revenue resource limit. This remains repayable to Scottish Government on return to financial balance.

The Board was escalated to stage 4 of the escalation and support framework on the 12th May 2025 due to concerns around the Board's financial sustainability, the deterioration of the Board's financial position during 2024/25 and leadership and governance.

NHS Grampian submitted a financial plan to Scottish Government on the 17th March 2025 which outlined a deficit totalling £68 million. On 31st March 2025, the Scottish Government confirmed the maximum deficit permitted by the Board is £45 million. The Board agreed a Financial Recovery Plan for 2025/26 that would support the Board in achieving a maximum deficit of £45 million. In developing the Financial Recovery Plan, it was recognised it will be

extremely challenging to achieve the £45 million deficit position and the plan leaves the Board with limited scope to deal with any in-year financial pressures. The £45 million deficit still leaves the Board with the highest overspend in Scotland.

Scottish Government have confirmed that NHS Grampian will receive a maximum of £45 million in deficit support funding in 2025/26 on a non-recurring basis. Providing NHS Grampian is able to deliver a £45 million deficit, this funding will enable NHS Grampian to deliver its statutory requirement to deliver within its revenue resource limit.

2.3 Assessment

Key Messages:

In preparing the NHS Grampian financial forecast based on the August financial position it has been identified that NHS Grampian requires to deliver £4.2 million of further cost reductions and additional savings to allow the Board to deliver against the £45 million Financial Recovery Plan.

The August reported financial position for the first five months of the financial year shows:

- NHS Grampian is overspent by £25.7 million for the first five months to August 2025;
- the forecast outturn for the year is currently above the £45 million outlined in the Board's financial recovery plan and a number of actions to mitigate this risk and deliver further cost reductions have been agreed;
- estimated savings delivered to date total £17.96 million against planned full year savings of £61.8 million;
- new cost pressures, not reflected in the Financial Plan, totalling £5.3 million have been identified in the first five months of the financial year; and
- capital spend of £17.7 million has been incurred to the end of August against a total programme of £104.3 million.

2025/26 Revenue Position

NHS Grampian is reporting a £25.7 million overspend for the first five months of 2025/26. The NHS Grampian forecast position for the year 2025/26 is an overspend of £49.2 million, which reflects a £4.7 million improvement from the July forecast as shown in the table below.

Table 1: Movement in 2025/26 Forecast Outturn

2025/26 Outturn	At June	At July	At August
Non delegated services	£56.9m	£55.2m	£50.5m
Sustainability Funding	(£24.3m)	(£24.3m)	(£24.3m)
Provision for IJB overspends	£23.0m	£23.0m	£23.0m
NHS Grampian Outturn	£55.6m	£53.9m	£49.2m

The forecast position is £4.2 million higher than the Financial Recovery Plan outturn. The remaining gap results from new cost pressures, which were not reflected in the financial plan, and a number of savings schemes not yet delivering at the expected level. The forecast has been prepared based on the August outturn position and new savings schemes agreed by the Chief Executive Team will not yet be fully reflected in the position.

It is expected that the forecast position will improve as we move through the financial year and savings agreed as part of the value and sustainability programme are delivered. In recognition of this anticipated improvement the forecast submitted to the Scottish Government has been maintained at £45 million. It is vital that all identified savings schemes are delivered to enable NHS Grampian to deliver the £45 million deficit required in 2025/26.

Savings Programme

Throughout August a validation exercise with input from system leaders was undertaken of all in year schemes and all schemes were risk rated as part of this process. The “likely” case savings, without any further interventions, identified from this review would deliver £54.5 million of savings. This is a £7 million shortfall against savings outlined in the Financial Recovery Plan.

In September work has been undertaken to develop new savings options to bridge the financial gap with all schemes considered and agreed by the Chief Executive Team. An additional £4.85 million of proposals have been agreed and a further £0.75 million proposal is under consideration. Further opportunities to bridge the remaining gap are due to be presented to the Chief Executive Team in early October 2025.

The total forecast savings of £60.4 million are not fully reflected in the current forecast outturn, with risk remaining against a number of savings schemes. It is anticipated that the forecast outturn will improve as we gain further assurance on savings delivery for higher risk schemes. Work is ongoing to take action where schemes are underperforming to maximise savings delivery and further mitigate this risk.

Enhancements made to the governance arrangements in place to support the delivery of savings have now been actioned. The key changes to arrangements include:

- The introduction of a monthly Financial Recovery Board to provide system-wide leadership, coordination and assurance around NHS Grampian’s financial recovery.
- The expansion of the monthly Value and Sustainability Delivery Group to all workstream leads to enable information sharing, escalation of risk, and monitoring of delivery.
- Enhancements to workstream meetings to support savings delivery at pace.

Progress against the total savings programme for the year to date and the current forecast full year savings are summarised in table 2 below.

Table 2: Savings and budget reductions

	Full Year Plan	Full Year Forecast Savings	Year to Date Plan	Year to Date Savings
Value and Sustainability Savings Programme	£61.8m	£60.4m	£17.30m	£17.96m

Enhanced Controls Budgetary Controls

Prompt action has been taken to address the current projected gap between forecast outturn and the Financial Recovery Plan deficit. Mitigating actions were reported to the August Board meeting and an update on progress to date is provided in table 3 below.

Table 3: Update on mitigating actions

Action	Update
Areas with deteriorating financial performance, compared to the 2024/25 outturn adjusted for new funding, are required to report on the causes of the deterioration and provide assurance on the actions being taken to address the cause of the overspend and improve financial performance.	In place with reports provided to CET on the 12 th August and the 9 th September. Updates have been incorporated into the financial monitoring report.
A review of all savings schemes is underway to assess the savings delivered to date and the forecast savings deliverable in 2025/26. Where a shortfall is identified mitigating actions will be agreed to ensure savings delivery. A further review will be undertaken to determine whether any new savings can be identified and delivered.	Review of savings schemes has been completed with a £7 million shortfall identified. Additional savings proposals totalling £4.85 million have been agreed and a further £0.75 million proposal is under consideration. Further work is ongoing to identify savings to bridge the remaining gap.
Governance arrangements will be reviewed for all savings programmes with recommendations to enhance accountability and reporting structures put to the Chief Executive Team for consideration.	Actioned with further detail included on page 4 of the report.
The Financial Recovery Board, agreed as part of the Financial Recovery Plan, will meet before the next NHS Grampian Board meeting.	The Financial Recovery Board has met on the 7 th August 2025, the 4 th September 2025 and the 2 nd October 2025 and will continue to meet on a monthly basis.

The actions outlined above enhance the controls in place within the Board. Ensuring delivery of the Financial Recovery Plan remains a key area of focus for the Chief Executive Team and regular updates on the financial position and forecast outturn will continue to enable action to be taken as required to address deteriorating financial performance.

The full financial monitoring for the organisation is attached as an appendix to this report. In light of the significant challenge faced by the organisation, a review of financial reporting and monitoring has been undertaken. The revised report will focus on key changes, deteriorations and improvements on a monthly basis.

Work will continue to enhance financial reporting and monitoring arrangements to support the organisation to manage its financial position and return to financial sustainability.

Integration Joint Board (IJB) Financial Position

Discussions have taken place with the IJBs at managerial level which indicate that the current forecast outturn for the three IJBs is within the provision for IJB overspends reflected in the Financial Recovery Plan. Table 4 outlines the latest 2025/26 forecast financial outturn which has informed the reduction in the provision for IJB overspends reflected in the forecast.

Table 4: Integration Joint Board Forecast Outturn

	Date reported to IJB	2025/26 Forecast IJB Variance including commitment to underwrite overspends	2025/26 Forecast NHSG Contribution	2024/25 IJB Overspend adjusted for reserves
Aberdeenshire IJB	3rd September 2025	£19m	£11m	£24m
Aberdeen City IJB	30 th September 2025	£11m	£7m	£17m
Moray IJB	25 th September 2025	£5m	£3m	£5m
Risk Provision			£2m	
Total			£23m	

The forecast includes £23 million in relation to expected contributions to cover the costs associated with overspends in our three IJBs. This figure comprises of £21 million relating to current estimated overspends with a further £2 million included in the current forecast to reflect the risk around the IJB financial positions. This is an improvement from the financial recovery plan submitted to Government in May 2025 which included a £26 million provision for contributions to Integrated Joint Board overspends. Monthly meetings are in place between the Director of Finance and the Chief Finance Officers in the three IJBs to complement current arrangements (including Chief Executives and Chief Officers) to manage and monitor performance.

Cost Pressures

Alongside the risk identified on potential shortfall of savings delivery, a number of new cost pressures totalling £5.3 million have been identified in the first five months of the year that were not reflected in the Board's financial recovery plan. These pressures include:

- £2.2 million due to increases in the price charged for energy compared to the prices assumed in the original financial plan
- £1.3 million due to increases in Dentist and Doctors in Training numbers at the August rotation
- £0.2 million due to increased costs associated with a contract change for glucose monitoring.

Additionally, an element of cost pressure can be attributed to changes from the planning assumptions used to develop the original financial plan. These costs are reflected in the current forecast and will require the Board to deliver additional savings to deliver against the £45 million target.

Risks

There are a number of risks and assumptions relating to the delivery of the 2025/26 financial plan. These are as outlined in table 5 below. Where relevant, controls in place to manage the risk are highlighted.

Table 5: Risks and Assumptions

	Risk Level	Controls
There is a risk that service pressures and other unplanned cost increases drive the underlying operational overspend to a higher level. The Financial Recovery Plan leaves the Board with no flexibility to manage in-year movements and any new cost pressures will require to be managed through the delivery of additional savings.	High	Regular reporting to the CET with deteriorations in trend highlighted and mitigating actions agreed by executive lead.
The 2025/26 financial plan includes an ambitious savings targets and there is a risk that the Board will not deliver savings at the level outlined in the financial plan. There has been slippage in the commencement of some schemes and some schemes are assessed as having a high risk of not delivering the full level of planned savings.	High	<p>This risk will be managed through regular reporting to the CET and the value and sustainability programme governance structure.</p> <p>Additional actions have been agreed by Chief Executive team to support the delivery of further savings which will support the management of this risk.</p>

There is provision in the Board's financial plan for a contribution to any overspends incurred by the three IJBs however there remains a risk should IJBs overspend beyond this level.	High	Regular review of IJB positions. Monthly meetings to discuss IJB financial positions set up with IJB Chief Finance Officers and the Director of Finance to complement meetings already in place between Chief Executive and IJB Chief Officers. Enhanced monitoring to NHSG Board.
<p>Pay settlements for all staff groups have yet to be agreed for 2025/26 and the financial plan assumes Scottish Government will fully fund the impact of the pay awards.</p> <p>There remains a risk that there is shortfall in funding against the final pay awards.</p>	Low	<p>This risk will be managed through ongoing discussions and engagement with SG.</p> <p>Pay funding has been confirmed for the pay awards agreed to date which is expected to cover the cost of the pay awards.</p>

Capital Position

The Asset Management Group oversee that arrangements are in place to deliver and monitor the capital programme. The programme reflects the effective allocation of limited available capital funding to address key risks across the infrastructure base. It has a total programme for 2025/26 is £104.30 million which includes:

- NHS Grampian's capital formula allocation totalling £14.1 million which is targeted at backlog maintenance and replacement of essential equipment and digital assets
- Specific Government funding for:
 - Additional backlog maintenance and essential equipment replacement projects totalling £10.4 million,
 - Baird Family Hospital and ANCHOR Centre Project totalling £68 million,
 - National equipment replacement programmes including PET/CT scanner with funding totalling £5.1 million, and
 - Carbon reduction and energy efficiency projects totalling £1.4 million.
- In addition the infrastructure investment programme is supplemented by charitable donations and developer contributions.

£17.73 million of expenditure has been incurred to August 2025 across all aspects of the Infrastructure programme and arrangements are in place to deliver the balance of the programme across 2025/26.

Planning for 2026/27

At the April Board meeting it was agreed that a three year financial recovery plan to support the Board in returning to financial balance be developed and reported to the Board in

October 2025. At this point it was anticipated that the internal budget review, led by the Director of Finance, and the external diagnostic review would identify savings that would bridge the gap and enable a return to financial balance. Whilst both reviews did identify savings opportunities, they were not sufficient to bridge the gap and it is clear that further savings need to be identified that will require a longer lead in time to develop and fully assess the implications. Further detail on the financial planning approach that will be taken is outlined below.

Financial planning for the three year period from 2026/27 is underway to support the development of a path to financial sustainability for the Board. It is anticipated that a three year financial plan will require to be submitted to Scottish Government in March 2026. The Board's Medium Term Financial Framework will be refreshed to support development of this plan.

The development of the Financial Plan takes place in a significantly challenging context with a high level of savings required to support return to financial sustainability. High level planning assumptions have been shared by Scottish Government to inform financial planning. As in previous years the delivery of a minimum of 3% recurring savings will be a requirement from Scottish Government, although savings in excess of this level will be required to deliver at the £36 million deficit outlined in the Financial Recovery Plan submitted to Scottish Government in May 2025.

Given the significant financial risk being managed in the current financial year, focus has been on delivery of the current value and sustainability programme to ensure the Board are able to achieve the deficit outlined in the 2025/26 Financial Recovery Plan. From October focus will shift to put the required programme governance in place to support further development of the three year Financial Plan including the value and sustainability programme, along with the refresh of the Medium Term Financial Framework. The development of the budget will be informed by Scottish Government planning assumptions and an assessment of the required uplifts for expenditure growth in the period of the plan along with any known service commitments, such as the Baird Family Hospital and Anchor Centre.

Savings identified through the internal budget review and the external diagnostic review will partially bridge the gap between the total financial challenge and the maximum deficit of £36 million. Further savings will be identified through the development of the 2026/27 value and sustainability programme. This programme will develop a variety of schemes that will support the Board's financial recovery over the period of the three year Financial Plan. All savings will be considered through the principle of finding balance and an impact assessment will be completed for all savings schemes.

Throughout this process, system wider communication and engagement will take place including regular Board seminars. Appendix two includes further detail on the approach that will be taken to developing the three year Financial Plan and the value and sustainability programme.

Updates will be provided at future Board meetings prior to approval of the Financial Plan and Medium Term Financial Framework at the April 2026 Board meeting. Monthly informal updates for Board Members will continue to outline progress against both the 2025/26 Financial Recovery Plan and the development of the 2026/27 three year financial plan and Medium Term Financial Framework.

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 NHS Scotland's three main strands of governance (clinical, staff and financial) 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

The Scottish Government has recognised the financial pressures on all Boards and has provided non recurring sustainability funding to support the Board's position in 2025/26. Work will continue to deliver savings in the areas identified as part of the 15 Box Grid which aims to reduce the overall cost base. The quarterly assessment against the 15 Box grid will be reported to the Performance Assurance Finance & Infrastructure Committee. We will continue to work closely with Scottish Government as part of the stage 4 escalation support in seeking to balance operational, financial and workforce pressures and return to financial sustainability.

2.3.4 Risk Assessment / Management

- Relates to Corporate Risk 3130: An Inability to achieve the aspirations set out in Plan for the Future due to financial resource constraints and inefficiencies.
 - There is a requirement to recover the financial position by redesigning services and implementing cost control measures to achieve savings.
 - Failure to do so may result in:
 - Further escalation on the Scottish Government's performance framework.
 - Inability to financially support current levels of service provision and workforce size.
 - Inability to meet financial targets and resources prioritised to deal with operational pressures at the expense of delivering the annual delivery programme.
 - Impact on the delivery of programmes and patient care.
 - Inability to create the conditions for sustainable change.
 - Exacerbating health inequalities and population health outcomes.
 - This risk is recognised as a high risk on the NHS Grampian risk register and was formally reviewed at the Performance, Assurance, Finance and Infrastructure Committee in September.

2.3.5 Equality and Diversity, including health inequalities

An impact assessment has not been completed for this report because it is not applicable. All service change proposals included in the financial plan have been subject to an initial impact assessment screening to ensure savings do not have a disproportionate impact on patients and staff with a protected characteristic or who live in a socio-economically deprived area.

2.3.6 Other impacts

All are outlined above.

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.
- Financial Recovery Board
- Regular meetings with Scottish Government as part of stage 4 intervention arrangements.

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 – 3rd September 2025.

2.4 Recommendation(s)

The Board is asked to:

- **Assurance –**
 - Note the update on the NHS Grampian revenue financial position for the five months to August 2025 and the projected year end revenue position for 2025/26.
 - Note the risks to the delivery of the Financial Recovery Plan for 2025/26.
- **Endorsement –**
 - Endorse the revised financial monitoring report, as attached at appendix 1, and make recommendations of any modifications required which would support the oversight of the financial management of the Board.
- **Approval –**
 - Note that due to a lack of budget savings being identified through the two financial reviews, it has not been possible at this stage to provide a plan to return to financial balance.

- Approve the approach and timeline outlined for the development of the three year Financial Plan and Medium Term Financial Framework.

3. Appendix/List of appendices

The following appendix/appendices are included with this report:

- Appendix 1 – Detailed Finance report August 2025
- Appendix 2 – Approach to developing the Financial Plan and Medium Term Financial Framework.