

Meeting:	NHS Grampian Board Meeting
Meeting date:	14 August 2025
Item Number:	7
Title:	Finance Report
Responsible Executive:	Alex Stephen (Director of Finance)
Report Author:	Sarah Irvine (Deputy Director of Finance)

1 Purpose

This is presented to the Board for:

- **Assurance** – The report provides an update on the NHS Grampian revenue financial position for the three months to June 2025 and the projected year end revenue position for 2025/26 with risks to the delivery of the Financial Recovery Plan for 2025/26 highlighted.
- **Recommendation**- The Board are asked to approve the revised reporting approach outlined in the report which will be provided to the Board in the October finance update.

This report relates to:

- 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

2 Report summary

2.1 Situation

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. The current total brokerage repayable to Scottish Government on return to financial balance is £90.0 million.

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 level of overspend permitted by the Board is £45 million and a financial recovery plan was developed and submitted to Scottish Government on the 30th May 2025 to cover this £23 million financial gap.

This report is presented to enable discussion on the NHS Grampian financial performance for the three month period to the 30th June 2025.

The report highlights the risks relating to the delivery of the financial position and as such provides moderate assurance given the current financial position, the scale of the challenge to deliver the financial recovery plan and the requirement to further develop mitigations for the risks highlighted in this report.

2.2 Background

NHS Grampian has been experiencing significant financial pressure for some time driven by inflationary increases on our cost base, the financial impact of operational pressures as a result of an increase in patient acuity, demand for services post COVID and the need to reduce waiting lists. These pressures are being experienced across the whole of health and social care sector within Grampian with significant financial pressure from the Integration Joint Boards driven by largely the same factors.

Pre-pandemic NHS Grampian managed to balance its budget but did so by using one-off savings and opportunities which are no longer available to NHS Grampian. During the COVID Pandemic, NHS Grampian were unable to set balanced budgets with limited savings delivered during this time to manage the financial pressures faced. This was consistent with other NHS Boards across Scotland with additional income received from the Scottish Government enabling the Board to deliver financial balance in these years.

Despite delivering savings of £50.5 million during 2024/25, NHS Grampian reported the highest overspend in value terms across Scotland and the fifth highest overspend in percentage terms. We have the highest forecast overspend in Scotland in 2025/26 and the third highest overspend in percentage terms. The scale of the overspend reported within NHS Grampian is a significant risk for the Scottish Government Health Portfolio budget.

NHS Grampian have a requirement to deliver within our allocated funding from Scottish Government (revenue resource limit). This statutory responsibility to break even has been enabled through the provision of £90 million of brokerage by the Scottish Government over the last two financial years. This brokerage will require to be repaid once the Board returns to financial balance. The Scottish Government have confirmed that brokerage will not be payable in 2025/26 resulting in NHS Grampian breaching its statutory requirement to deliver within our allocated funding. Any deficit at the end of the financial year will be required to be shown as an overspend in the accounts. The full implications of this change are being worked through by our technical accounting team and will be reported to the next meeting of the Audit & Risk Committee, with a copy being shared with all Board members.

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. An external

diagnostic has been commissioned by the Scottish Government with the final report provided to Scottish Government during July 2025. NHS Grampian are working closely with Scottish Government to fully understand and quantify the opportunities identified in this review on the organisation's financial position. This review will inform the actions to be included within the Boards improvement plan. Scottish Government have established an Assurance Board which is tasked with providing oversight of NHS Grampian's progress against the actions outlined in the Improvement Plan.

The Board agreed a financial recovery plan that would deliver a £23 million reduction in the deficit on the 12th June 2025 following a further budget review led by the Director of Finance. In developing the Financial Recovery Plan, it was recognised it will be extremely challenging to achieve the £45 million and the plan leaves the Board with limited scope to deal with any in-year financial pressures. The £45 million overspend still leaves the Board with the highest overspend in Scotland.

The final stage on the escalation framework is Stage 5 where the level of risk and organisational dysfunction is so significant that the NHS Board requires direct intervention using statutory powers of direction. There remains a risk that the Board will face further escalation if it is not able to demonstrate the required improvement to the Assurance Board.

2.3 Assessment

Key Messages:

The June reported financial position for the first quarter shows:

- NHS Grampian is overspent by £17.17 million for the first three months to June 2025;
- the forecast outturn for the year is currently above the £45 million outlined in the Board's financial recovery plan with actions under consideration to mitigate this risk;
- estimated savings delivered to date total £6.6 million including £5.6 million of value and sustainability savings against a value and sustainability programme target of £7.2m;
- new cost pressures, not reflected in the financial plan, totalling £4 million have been identified in the first quarter of the financial year; and
- capital spend of £8 million has been incurred to the end of June against a total programme of £104.5 million.

2025/26 Revenue Position

NHS Grampian is reporting a £17.17 million overspend for the first quarter of 2025/26. The NHS Grampian forecast position for the year 2025/26 is an overspend of £55 million which is £10 million higher than the Financial Recovery Plan outturn. This gap results from savings not being delivered at the level outlined in the financial plan. Without delivery of these savings there is a risk that NHS Grampian will be unable to deliver the £45 million deficit requested by the Scottish Government. The Chief Executive Team is focused on identifying mitigation actions to ensure delivery of the savings programme in full.

The full budget monitoring for the organisation is attached as an appendix to this report. The format used for financial monitoring has served the organisation well over the last 15 plus years. However the scale of the financial challenge faced by the Board is significant and it is recognised that we now need to review our approach to financial monitoring to support the Board's financial recovery. A full review will be undertaken of our financial monitoring approach which will focus more on exceptions, highlighting changes or deteriorations that have taken place in the reporting period. This review will deliver a revised monitoring report for the October Board.

A breakdown of the financial forecast is shown in table 1 below.

Table 1: NHS Grampian Financial Forecast

2025/26 Financial Plan	Original Financial Plan	Financial Recovery Plan	Forecast outturn 2025/26
Projected overspend before savings	£93.7m	£89.3m	£89.3m
Savings	(£39.0m)	(£46.0m)	
- Savings delivered to date			(£6.6m)
- Estimated savings to be delivered July onwards			(£23.8m)
New pressures			£4.0m
Technical Adjustments			(£6.0m)
Forecast overspend as per 2025/26 Financial Plan	£54.7m	£43.3m	£56.9m
Sustainability Funding	(£24.3m)	(£24.3m)	(£24.3m)
Outturn (non delegated services)	£30.4m	£19.0m	£32.6m
Anticipated funding provided to Integration Joint Boards	£38.0m	£26.0m	£23.0m
NHS Grampian 2025/26 Outturn	£68.4m	£45.0m	£55.6m
Gap to Financial Recovery Plan outturn			(£10.6m)
Financial Recovery Plan outturn			£45.0m

Prompt action will be taken to address the current projected gap between forecast outturn and the financial recovery plan deficit. The following mitigating actions are being undertaken:

- 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.
- 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.
- 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.
- A further review will be undertaken to determine whether any new savings can be identified and delivered.
- The Financial Recovery Board, agreed as part of the Financial Recovery Plan, will meet before the next NHS Grampian Board meeting.

The above actions will support the enhanced controls already in place within the Board. Ensuring delivery of the financial recovery plan is a key area of focus for the Chief Executive Team. Regular updates on the financial position and forecast outturn will continue to ensure ownership of the financial position and enable action to be taken as required to address deteriorating financial performance.

If we are not able to get assurance that the collective actions outlined will improve the financial position, the forecast outturn reported to Scottish Government may need to increase above the maximum £45 million overspend permitted in 2025/26.

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. The next monitoring report will include additional information on the IJB positions, once these have been formally reported to the IJBs. The forecast includes £23 million in relation to expected contributions to cover the costs associated with overspends in our three IJBs. This is a small improvement from the financial recovery plan submitted to Government in May 2025. 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.

Savings

Progress against the total savings programme for the year to date and the current forecast full year savings are summarised in table 2 below. Progress to date has been below target for a number of programmes and there is risk around a number of elements of the savings programme which is reflected in the forecast full year savings figure. The total risk is £9.7 million or 16% of the total savings value.

Table 2: Savings and budget reductions

	Financial Plan	Delivered to June	Forecast full year savings
Value and Sustainability Savings Programme	£30.9m	£5.6m	£24.4m
Operational Savings	£7.2m	£1.0m	£5.0m
Contract Management Savings	£2.0m	£0.0m	£1.0m
Reduction in IJB overspend	£12.0m	£3.0m	£15m
Reduction in operational overspend	£4.0m	£0.0m	£1.0m
Technical Adjustments	£6.0m	£0.0m	£6.0m
Total	£62.1m	£9.6m	£52.4m

Further detail on the savings schemes outlined in the Value and Sustainability programme, including a risk rating for all schemes and the split between recurring and non recurring savings can be found within the detailed report at appendix 1.

Since this forecast has been reported, focused work has been undertaken to review the savings delivery to date against the savings programme and the forecast savings anticipated for the remainder of 2025/26. The provisional output of this review will inform future updates on savings delivery to the Board and its Committees and is attached in appendix 2.

A number of savings remain at high risk of non delivery and mitigations to address shortfalls in saving delivery are under urgent consideration. To support the required increased focus on savings delivery across all programmes, a rapid review will be undertaken of the governance arrangements in place and recommendations to further enhance accountability and reporting structures will be considered by the Chief Executive team.

Cost Pressures

Alongside the risk identified on potential shortfall of savings delivery, a number of new cost pressures totalling £4 million have been identified in the first quarter of the year that were not reflected in the Board's financial recovery plan. These pressures include higher than anticipated energy charges, movement in Scottish Government allocations and costs associated with a contract change for glucose monitoring and have been reflected in the forecast outturn figure.

Risks

There are a number of risks and assumptions relating to the delivery of 2025/26 financial plan as outlined in table 3 below. Where relevant controls in place to manage the risk are highlighted.

Table 3: 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.	Very High	This risk will be managed through regular reporting to the CET and the value and sustainability programme governance structure.
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. An additional risk relates to the potential for cost shifts as a result of savings programmes within the IJBs.	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.
Pay settlements for all staff groups have yet to be agreed for 2025/26 and the financial plan	Low	This risk will be managed through ongoing

assumes Scottish Government will fully fund the impact of the pay awards.		discussions and engagement with SG.
There remains a risk that there is shortfall in funding against the final pay awards.		

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 £105.20 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 £7 million;
 - Baird Family Hospital and ANCHOR Centre Project totalling £67.9 million;
 - National equipment replacement programmes including PET/CT scanner with funding totalling £4.4 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 of £5.9 million.

£8.016 million of expenditure has been incurred to June 2025 across all aspects of the Infrastructure programme and arrangements are in place to deliver the balance of the programme across 2025/26.

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 Audit & Risk 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.
 - o There is a requirement to recover the financial position by redesigning services and implementing cost control measures to achieve savings.
 - o 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.
 - o This risk is currently recognised as a high risk on the NHS Grampian risk register and will be formally reviewed at the Performance, Assurance, Finance and Infrastructure Committee in September.
- Strategic Risk 3127 - Inability to effectively maintain and invest in NHS Grampian's infrastructure.

Although the planned application of available funding for backlog maintenance will ensure that the available resource is used effectively targeting our highest risk areas and to deliver best value, there is insufficient resource available to deliver all of the required investment priorities with a consequential potential impact on service delivery and delivery against our strategic intent.

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.
- 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 – 30th July 2025.

2.4 Recommendation(s)

The Committee is asked to:

- **Assurance** –
 - Note the update provided on the NHS Grampian revenue financial position for the three months to June 2025 and the projected year end revenue position for 2025/26.
 - Note the risks highlighted in relation to the delivery of the Financial Recovery Plan for 2025/26.
- **Recommendation** - The Board are asked to approve the revised reporting approach outlined in the report to enhance oversight of the Board's financial recovery.

2 Appendix/List of appendices

The following appendix/appendices are included with this report:

- Appendix 1 – Detailed Finance report June 2025
- Appendix 2 – Provisional output from detailed savings review