

<b>Meeting:</b>	NHS Grampian Board Meeting
<b>Meeting date:</b>	19 February 2026
<b>Item Number:</b>	9.1
<b>Title:</b>	Finance Report
<b>Responsible Executive:</b>	Alex Stephen (Director of Finance)
<b>Report Author:</b>	Sarah Irvine (Deputy Director of Finance)

## 1 Purpose and recommendations

### **This is presented to the Board for:**

- Assurance

### **Recommendations:**

The Board is requested to:

- **Discuss and note** the update on the Board's financial position for the period to December 2025/26 and the current forecast year end position.
- **Endorse** the actions being taken to develop 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 nine months to December 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 information on 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**

NHS Grampian submitted a financial plan to Scottish Government on the 17<sup>th</sup> March 2025 which outlined a deficit totalling £68 million. On 31<sup>st</sup> March 2025, the Scottish Government confirmed the maximum deficit permitted by the Board is £45 million. In response to this, the Board agreed a Financial Recovery Plan for 2025/26 that would support delivery of a maximum deficit of £45 million. The Financial Recovery Plan agreed by the Board was ambitious, with £62 million of total savings required, reflecting the scale of the challenge facing the Board. In developing the Financial Recovery Plan it was recognised there would be limited scope to deal with any in-year financial pressures alongside achievement of the £45 million deficit position.

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.

Scottish Government have indicated that NHS Grampian will receive a maximum of £36 million in deficit support funding in 2026/27 and the early indication of this is welcomed to support financial planning. It should be noted that the draft Scottish Government budget requires to go through the parliamentary approval process.

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 12<sup>th</sup> 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

continue to work closely with the Scottish Government under the framework to improve performance in a number of key areas.

## 2.3 Assessment

### Key Messages:

The forecast outturn for the year is £44.8 million, which is within the maximum level of deficit support funding for the first time in 2025/26. Focus on savings delivery and cost control will continue through the final quarter of the financial year to ensure delivery of this outturn position.

The December reported financial position for the first 9 months of the financial year shows:

- NHS Grampian is overspent by £37.1 million for the first 9 months of the financial year;
- the forecast outturn for the year is £44.8 million, which is within the £45 million outlined in the Board’s financial recovery plan and work will continue through the final quarter of the financial year to maintain this forecast outturn;
- estimated savings delivered to date total £38.06 million against planned savings of £37.01 million at December;
- forecast savings for the 2025/26 year total £61.9 million in line with the Value and Sustainability savings target;
- new cost pressures, not reflected in the Financial Plan, totalling £6.0 million have been identified in the first 9 months of the financial year; and
- capital spend of £38.7 million has been incurred to the end of December against a total programme of £75.9 million.

### 2025/26 Revenue Position

NHS Grampian is reporting a £37.1 million overspend for the first nine months of 2025/26. The NHS Grampian forecast position for the year 2025/26 has reduced to an overspend of £44.8 million with the movement in the forecast through the year outlined in table 1 below.

**Table 1: Movement in 2025/26 Forecast Outturn**

<b>2025/26 Outturn</b>	<b>At Q1 (June)</b>	<b>At Q2 (Sept)</b>	<b>At Q3 (Dec)</b>
Non delegated services	£56.9m	£48.4m	£46.1m
Sustainability Funding	(£24.3m)	(£24.3m)	(£24.3m)
IJB deficit support funding	£23.0m	£23.0m	£23.0m
<b>NHS Grampian Outturn</b>	<b>£55.6m</b>	<b>£47.1m</b>	<b>£44.8m</b>

The forecast outturn is within the £45 million maximum level of deficit support funding provided by the Scottish Government for 2025/26. The current forecast includes a provision for increased spend during winter within non-delegated services noting the extreme

pressures being managed across the system in response to the influenza surge seen during December and the extreme weather seen in January. We are also holding a £6 million risk provision relating to Integrated Joint Board deficit support funding to manage any potential movement in their financial positions over the final quarter. It is vital we continue to maximise savings delivery for all identified savings schemes to enable NHS Grampian to deliver the £45 million deficit required in 2025/26.

Further detail on the December financial position can be found in the detailed monitoring report attached at appendix one.

### Savings Programme

Both year to date, and forecast, savings delivery have been reviewed based on December delivery with the forecast savings showing a small increase from those reported in November. 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**

	<b>Full Year Plan</b>	<b>Full Year Forecast Savings</b>	<b>Year to Date Plan</b>	<b>Year to Date Savings</b>
Value and Sustainability Savings Programme	£61.8m	£61.9m	£37.01m	£38.06m

The Value and Sustainability programme continues to ensure action is taken where schemes are underperforming to maximise savings delivery and further mitigate this risk. Progress against the Value and Sustainability Plan continues to be reported via the governance structure with regular reporting to the Value and Sustainability Programme Board, the Value and Sustainability Delivery group and the Financial Recovery Board.

### Enhanced Controls Budgetary Controls

Prompt action has been taken to address the projected gap between forecast outturn and the Financial Recovery Plan deficit outlined to the organisation earlier in the financial year. Mitigating actions are in place to support financial improvement and an update on progress against the actions is provided in table 3 below.

**Table 3: Update on mitigating actions**

<b>Action</b>	<b>Update</b>
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 updates incorporated into the financial monitoring report. No material deteriorations reported in non-delegated positions November. Deteriorations were reported on the December positions within two areas which will be the focus of further work.

	There has been a deterioration reported in Moray IJB with a session held in January's Finance Recovery Board focusing on IJB positions.
A monthly review of all savings schemes is undertaken 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.	A detailed review of savings based on December reporting has identified a further increase in forecast savings delivery taking total forecast savings for 2025/26 to £61.9 million. Work continues to maximise savings delivery for existing programmes and develop new savings proposals.
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.	Revised governance arrangements in place with Value and Sustainability programme board mirroring governance for other two priority programmes.
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 <sup>th</sup> August 2025, the 4 <sup>th</sup> September 2025, the 2 <sup>nd</sup> October 2025, the 6 <sup>th</sup> November 2025, the 3 <sup>rd</sup> December 2025 and the 8 <sup>th</sup> January 2026. The Board will continue to meet on a monthly basis.

The actions outlined above enhance the controls in place within the Board. Delivery of the Value and Sustainability programme, which will ensure a financial deficit no greater than £45 million, is one of three priority programmes within NHS Grampian. Regular updates on the financial position and forecast outturn will continue via the aligned governance structures to ensure action is taken promptly to address deteriorating financial performance.

#### Integration Joint Board (IJB) Financial Position

Regular engagement at senior level has continued with the three Integration Joint Boards with monthly meetings 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. The latest reported outturns indicate that the current provision held for IJB deficit support funding will be sufficient to meet the likely requirements for 2025/26.

Table 4 outlines the latest 2025/26 forecast financial outturn presented to the three IJBs which has informed the reduction in the provision for IJB deficit support funding reflected in the forecast.

**Table 4: Integration Joint Board Forecast Outturn**

	<b>Date reported to IJB</b>	<b>2025/26 latest Forecast IJB Variance pre additional partner contributions</b>	<b>2025/26 Q3 Forecast NHSG Contribution</b>	<b>2024/25 IJB Outturn adjusted for reserves</b>
Aberdeenshire IJB at Quarter 3	28 <sup>th</sup> January 2026	£11m	£6m	£24m
Aberdeen City IJB at Quarter 3	3 <sup>rd</sup> February 2026	£11m	£7m	£17m
Moray IJB at Quarter 3	29 <sup>th</sup> January 2026	£8m	£4m	£5m
Risk Provision			£6m	
<b>Total</b>			<b>£23m</b>	

Both the forecast and the year to date position includes £23 million in relation to expected deficit support funding for the three IJBs. This is an improvement from the financial recovery plan submitted to Government in May 2025 which included a £26 million provision for deficit support funding for Integrated Joint Boards.

The £23 million provision for IJB deficit support funding comprises of £17 million relating to current estimated deficit support funding with a further £6 million included in the current forecast to reflect the risk around the IJB financial positions. Moray IJB has highlighted a deterioration in financial position from the original financial plan. A financial recovery plan has been put in place, with input from senior management across the partners, to address the deterioration in financial performance within the Moray IJB. This deterioration has been offset by an improved forecast from Aberdeenshire IJB. For the moment the overall provision for IJB deficit support funding has been held at £23 million, with the risk provision increased to manage potential further deteriorations in IJB financial positions. This will ensure the Board is best placed to address any further adverse movements in IJB financial pressures noting the risk of heightened pressures during the winter period and the significant operational pressures currently faced by the Board.

### Cost Pressures

Alongside the risk identified on potential shortfall of savings delivery, a number of new cost pressures totalling £6.0 million have been identified year to date that were not reflected in the Board's financial recovery plan. These pressures include

- £0.5 million of estimated costs relating to the closure of the Central Decontamination Unit.
- £0.2 million of costs associated with the Windows 11 upgrade to enable the continued use of non-compatible devices.
- £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.

A provision for additional spend relating to the organisational response to the extreme weather experienced during January has been reflected in the forecast outturn. These costs are anticipated to materialise in both the January and February position.

### 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**

	<b>Risk Level</b>	<b>Controls</b>
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 (No change)	Regular reporting to the CET with deteriorations in trend highlighted and mitigating actions agreed by executive lead.  <b>Finance Recovery Board providing enhanced scrutiny of the financial position.</b>  <b>Further rebasing of nursing budgets to move to sustainable staffing models and enhance grip and control.</b>  <b>Provision for increased spend in winter, including the organisation response to the extreme weather, reflected in forecast.</b>
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 (No change)	This risk will be managed through regular reporting to the CET and via the Value and Sustainability Programme governance structure.  Additional actions have been agreed by Chief Executive team to support the delivery of further savings which will support the management of this risk.  Work continues to identify and support savings schemes reporting underperformance against plan to increase savings delivery.

		<b>Value and Sustainability Programme Board in place to enhance governance over the V&amp;S programme. Savings proposals for 2026/27 identified and work ongoing to identify options to close the gap to the £40 million of required savings. First Quality Impact Assessment panel to meet in January.</b>
There is provision in the Board's financial plan to provide deficit support funding to the three IJBs however there remains a risk should IJBs overspend beyond this level.	High (No change)	Regular review of IJB positions. Monthly meetings to discuss IJB financial positions between 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.  <b>Further detail on the IJB positions presented to the January Financial Recovery Board. Financial recovery plan for Moray IJB has been developed supported by senior managers.</b>  <b>Work continues across the system to ensure planning is taken forward on a system wide basis with clear understanding of the impacts of decisions across partners.</b>
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.  There remains a risk that there is shortfall in funding against the final pay awards.	Low (No change)	This risk will be managed through ongoing discussions and engagement with SG.  Pay funding has been confirmed for the pay awards agreed to date which is expected to cover the cost of the pay awards.
There remains uncertainty around the final costs of the AFC non pay reforms, with the final hour due to be implemented from the 1 <sup>st</sup> April 2026 and uncertainty remaining over the cost of the band 5 to 6 regrading.	Low risk (2025/26)  high risk (future years)  (No change)	Costs associated with the AFC non pay reforms will be closely monitored. Risk low in current year but expected to increase for future years.  Criteria have been agreed for the implementation of the further 1 hour reduction to balance clinical and financial risk with submissions due by the 30 <sup>th</sup> November. Work will be undertaken to cost the level of backfill agreed. Risk remains over band 5 to 6 regrading which will be closely monitored.

## 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 £75.9 million, with a reduction in funding due to re-profiling of spend relating to the Baird Family Hospital and Anchor Centre projects. The funding for 2025/26 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 £12.1 million,
  - Baird Family Hospital and ANCHOR Centre Project totalling £45 million,
  - National equipment replacement programmes including Radiotherapy/PET equipment with funding totalling £1.0 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.

£38.7 million of expenditure has been incurred to December 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**

Scottish Government announced their draft budget on the 13<sup>th</sup> January 2026 and the detail of the budget was largely in line with planning assumptions. Whilst the Board received £11 million of additional funding to reflect changes to the NRAC target shares, new costs have been identified for 2026/27 which will offset this new funding.

Initial financial projections for 2026/27 outline a significant financial challenge for NHS Grampian with an expected deficit of £76 million before the delivery of savings. Scottish Government advised to assume a maximum of £36 million in deficit support funding for financial planning and this has been confirmed through the budget process. Delivering an overspend within this level will require the delivery of savings totalling £40 million including a reduction in deficit support funding for the IJBs of £6 million. This would require the deficit support funding to reduce from the £26 million included in the 2025/26 recovery plan to £20 million for 2026/27.

Financial planning assumptions have been shared with the three Integration Joint Boards to inform financial plans for 2026/27 and each Integration Joint Board is in the process of undertaking their own detailed budget setting process. Work continues with our IJB partners to understand whether there is an opportunity to deliver further reductions in the provision for deficit support funding and this will continue to be refined as the three

Integration Joint Boards move through their budget approval process and gain further certainty over new pressures and the deliverability of savings programmes.

To support whole system planning, in early February, all indicative savings schemes from NHS Grampian and the three Integration Joint Boards (IJBs) will be shared to establish any unintended consequences from decisions being taken in one part of the system that negatively impact on other parts of the system. This will be critical in determining where patient safety, clinical outcomes or staff health and well-being may be compromised. In addition, the North East System Transformation Group is being re-established to explore whole system planning and integration with a focus on developing savings opportunities for Year 2 and Year 3 delivery, in a way which respects the locus of each partner and the IJBs in approving financial plans. Membership of the Group will consist of Executives from NHS Grampian, the three IJB's and the three Councils with the inaugural meeting scheduled for February 2026.

Looking forward to future years, NHS Grampian have been advised to plan on a further reduction in non-recurring sustainability funding over the period of the financial plan with a £5 million annual reduction. The level of deficit support funding will also reduce from £36 million in 2026/27, to £25 million in 2027/28 and £15 million in 2028/29. These figures are welcomed for planning purposes but do remain subject to future budget processes.

Work will continue in the coming weeks and months to refine the financial plan. It must be noted a number of key financial risks are not currently reflected in the figures including:

- Financial risk associated with the Agenda for Change non-pay reforms with the assumption remaining that the final cost of implementation will be fully funded.
- Financial risk associated with the Unscheduled Care and Planned Care improvement plans with the assumption recurring costs are fully funded by Scottish Government.
- There is no provision in the financial plan to improve performance beyond that included in the Scottish Government funded Unscheduled Care and Planned Care improvement plans.
- There is no provision in the financial plan for new service developments or national workstreams which do not come with funding. Costs have been identified relating to the Business Systems Transformation programme which have been reflected in the financial plan from 2026/27.

The Value and Sustainability programme launched during October with the aim of identifying and developing savings schemes to support the Board's financial recovery over the period of the three year Financial Plan. Savings proposals totalling £33 million have been identified, with initial assessments indicating £24 million of this will be deliverable in 2026/27. Work will continue to refine these estimates and identify further options to increase deliverable savings to £40 million. The Quality Impact Assessment panel met at the end of January to consider all savings proposals through the principle of finding balance supported through a robust integrated impact assessment and quality impact assessment process. Further panels will take place in February and March.

NHS Grampian are required to submit the draft financial plan to Scottish Government on the 2nd February 2026 with the final plan due to be submitted on the 16th March 2026. The Financial Plan and Medium Term Financial Framework will be presented to the March

2026 Board meeting for approval. 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 and deficit support 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.
  - 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 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.
- Finance Recovery Board – finance update is a standing item.
- 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 – 28<sup>th</sup> January 2026.

## **2.4 Recommendations**

The Board is asked to:

- **Assurance** –
  - Note the update on the NHS Grampian revenue financial position for the period to December 2025 and the projected year end revenue position for 2025/26.
  - Endorse the actions being taken to develop the three year Financial Plan and Medium Term Financial Framework.

## **3. Appendix/List of appendices**

The following appendix is included with this report:

- Appendix 1 – Detailed Finance report December 2025

