

<b>Meeting:</b>	<b>NHS Grampian Board Meeting</b>
<b>Meeting date:</b>	<b>6 February 2025</b>
<b>Item Number:</b>	<b>9</b>
<b>Title:</b>	<b>Update on NHS Grampian Financial Position</b>
<b>Responsible Executive/Non-Executive:</b>	<b>Alex Stephen, Director of Finance</b>
<b>Report Authors:</b>	<b>Sarah Irvine, Deputy Director of Finance</b>

## 1 Purpose

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

- Discussion
- Assurance

### **This report relates to a:**

- Annual Delivery Plan
- Emerging Issue
- Financial Sustainability

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

- Effective

### **The Board is asked to:**

- **Note** – that NHS Grampian has been escalated to Stage 3 of the NHS Scotland Support and Intervention Framework.
- **Endorse** – the actions being taken to deliver a projected revenue overspend for the year of £67.5 million noting that NHS Grampian has a revenue overspend of £49.9 million for the nine months to the end of December 2024.
- **Endorse** – the financial planning approach 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.

## 2 Report summary

### 2.1 Situation

This report is presented to:

- formally update the board that NHS Grampian has been escalated to Stage 3 on the NHS Scotland Support and Intervention Framework by the Scottish Government for financial management and position.

- enable discussion on the NHS Grampian financial position at month 9 2024/25 (December) and the projected year end position for 2024/25;
- 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.

## **2.2 Background**

NHS Grampian was unable to set a balanced revenue budget for this financial year. Saving 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 revenue budget for 2024/25 was not balanced in the financial plan submitted to Scottish Government in March 2024, with a projected financial gap of £59 million after achievement of Value and 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.

Under section 12F of the National Health (Scotland) Act 1978, NHS bodies have a statutory duty to breakeven against revenue expenditure. Should NHS Grampian overspend against its revenue budget, then it will not meet this statutory duty and may be subject to a Section 22 report. Section 22 reports are prepared by the Auditor General if any specific concerns or issues have been raised in the audit of one of the public bodies for which he is responsible. This is done under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. The issues covered by Section 22 reports will depend on what the auditor has highlighted in their audit, but they could include areas such as financial management or governance.

This report summarises the position at Month 9 (December) and updates on the forecast outturn for 2024/25 which reflects current and ongoing service pressures. A number of actions are being taken to manage the financial position and an update on the Value and Sustainability programme and External Diagnostic Review are provided within the report.

The report also provides an update on our escalation to stage 3 on the NHS Scotland Support and Intervention Framework including details of what this means for NHS Grampian.

Finally the report also looks forward to 2025/26 and provides a high level update on the draft financial plan for 2025/26 and beyond. 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 financial position.

## 2.3 Assessment

### Financial Position and Forecast

The Finance Report at 31<sup>st</sup> December (month 9) is attached at Appendix 1.

The Board is reporting an overspend at the end of December (nine months) of £49.9 million on NHS Grampian non-delegated services (i.e. excluding Integration Joint Boards). The level of monthly operational overspend remains stable so far this year at circa £5 million a month despite significant service pressures relating to patient flow and increased demand on our services which are contributing to the level of the overspend. All of the large Portfolios remain significantly overspent.

Financial forecasts continue to be updated each month to reflect the latest information. Our November forecast outturn submitted to Scottish Government highlighted a deterioration in our forecast overspend due to a deterioration in the Aberdeenshire IJB forecast position. Detail on the December forecast is provided below.

#### **Non-Delegated Services:**

The forecast for the year based on December results for NHS Grampian non-delegated services is a £43.2 million overspend, taking us below the level outlined in the initial financial plan to Scottish Government. This improvement from previous projections is driven by £5 million of additional funding received from Scottish Government, £2m of an improvement relating to a reduction in the cost of national risk share arrangements and £10m regarding an underspend against the Agenda for Change non pay reform funding now reflected in our forecast position. This benefit has been offset by £0.6 million of spend linked to additional bed capacity agreed at the December Board meeting.

The table below shows the forecast overspend as per our financial plan, along with the forecast outturn on non-delegated services for the last three months.

	<b>Financial Plan</b>	<b>October</b>	<b>November</b>	<b>December</b>
<b>Forecast Overspend Non-delegated services</b>	<b>£59.1m</b>	<b>£58.6m</b>	<b>£59.4m</b>	<b>£59.6m</b>
<i>Adjusted by:</i>				
Additional Scottish Government Funding				(£5.0m)
Improvement in Risk Share				(£2.0m)
Agenda for Change Non Pay Reform Funding				(£10.0m)
Additional Capacity Costs				£0.6m
<b>Revised forecast Outturn</b>	<b>£59.1m</b>	<b>£58.6m</b>	<b>£59.4m</b>	<b>£43.2m</b>

An underspend has been reflected against the Agenda for Change non pay reform funding due to a low number of applications for the band 5 to 6 regrading progressed during 2024/25. This has allowed us to take a financial benefit in the 2024/25 financial year. There remains uncertainty over the final cost of the Agenda for Change non pay

reforms and there is a risk that the cost associated with the reforms in 2025/26 may exceed the £14.6 million of recurring funding provided by Scottish Government.

### **Integration Joint Boards (IJB)**

Following a deterioration in the Aberdeen City IJB financial position, largely driven by social care pressures, it is now forecast that NHS Grampian will need to provide an additional £6.3 million as part of the IJB financial risk share arrangements defined in the Integration Schemes. This now means that NHS Grampian will need to contribute to overspends in all three IJBs. There is a risk that this figure may increase in future months with the IJBs continuing to see significant financial and service pressures. Based on current projections of the IJB financial positions for 2024/25 a contribution of £24.3 million has been assumed.

The table below shows the anticipated contribution to IJB overspends provided for in the financial plan along with the movement from October to December.

	<b>Financial Plan</b>	<b>October</b>	<b>November</b>	<b>December</b>
Aberdeen City IJB	£0m	£0m	£0m	£6.3m
Aberdeenshire IJB	£0m	£11.5m	£15.0m	£15.0m
Moray IJB	£0m	£3.0m	£3.0m	£3.0m
<b>Anticipated Contribution to IJB overspends</b>	<b>£0m</b>	<b>£14.5m</b>	<b>£18.0m</b>	<b>£24.3m</b>

These two elements mean that NHS Grampian's total projected overspend for 2024/25 is currently £67.5 million (approximately 5% of budget) as highlighted in the table below.

	<b>Financial Plan</b>	<b>October</b>	<b>November</b>	<b>December</b>
- Non-Delegated Services	£59.1m	£58.6m	£59.4m	£43.2m
- Anticipated IJB contributions	£0m	£14.5m	£18.0m	£24.3m
<b>NHS Grampian forecast outturn</b>	<b>£59.1m</b>	<b>£73.1m</b>	<b>£77.4m</b>	<b>£67.5m</b>

This level of projected overspend remains above the £59 million set out in the initial financial plan but has improved from the position reported in November. The Chief Executive Team remain committed to making further improvements in the Board's financial position. We will continue to focus on delivery of Value and Sustainability workstreams for the remainder of the year and the implementation of the measures agreed to control spend. Additionally it will be vital to avoid further unplanned commitments between now and the end of the financial year.

### **Update on Financial Recovery Measures**

#### **Value and Sustainability Programme**

Our financial plan submitted to Scottish Government in March 2024 outlined Value and Sustainability savings totalling £35 million. Significant savings have been delivered throughout the 2024/25 year, with £34.5 million of savings delivered at December against a target of £25.3 million.

The Programme continues to review 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. An update of the 15 Box Grid is being agreed via Directors of Finance to ensure focus on opportunities for the new financial year.

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. The delivery of these savings and this work is partly responsible for the stabilisation of the non-delegated acute services financial position.

### **External Diagnostic Review**

Work continues on the four key areas of focus:

- 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.

### **Escalation on NHS Scotland's Support and Intervention Framework**

NHS Grampian has been receiving support from the Scottish Government since November 2023, when the board was escalated by the Scottish Government to stage 2 of the NHS Scotland Support and Intervention Framework. In January 2025 NHS Grampian was escalated from Stage 2 to Stage 3 of the Framework based on the deterioration in the financial position of the Board reported in November 2024 and the recommendation of the National Planning and Performance Oversight Group. A copy of the Escalation letter is included at appendix 2.

Stage 3 is a formal approach and involves significantly enhanced support, which may include some external support, alongside additional scrutiny of the Board's financial position. We have been advised that the escalation will initially involve additional monitoring and oversight from colleagues in Scottish Government's Finance Delivery Unit. Regular meetings will also take place with the Director of Health and Social Care Finance for NHS Scotland to discuss progress against improvement plans. Discussions are continuing between NHS Grampian's Chief Executive and officials from the Scottish Government to agree what additional support might be available to enable the Board to move to a sustainable position.

If the Board is unable to make improvements in the underlying financial position then it may face further escalation to Stage 4 of the Support and Intervention Framework.

### **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 overspend in 2024/25, with many of the reasons being recurring in nature. All three Integration Joint Boards are expected to record deficits this year, with the recurring pressure understated due to the use of reserves in Aberdeen City IJB in 2024/25 to support their financial position.

The Scottish Government have indicated all Boards must provide as part of their Financial Plan for 2025/26:

- A clear programme of work and supporting actions to achieve 3% 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 improvement on the overspend position of £59 million.
- Trajectories for improvement in the financial position supported by detailed plans as to how this would be achieved and the arrangements that will be implemented by the Board to oversee delivery.

In light of the scale of our financial challenge we remain concerned at our ability to deliver an improved forecast outturn position in 2025/26, when compared to 2024/25 initial financial plan, as no provision was included in the initial financial plan for the IJB financial risk share arrangements. The scale of savings requires significant system transformation and change, which will not be deliverable within a single financial year. Other savings options that would deliver an improved financial position have been explored during 2024/25. These options were discounted as they were assessed to have a direct impact on the delivery of patient care and as such did not find the required balance between finance, clinical and workforce governance to support the schemes from being taken forward.

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 £140 million before the delivery of savings. £102 million of this overspend sits with non-delegated services with a further £38 million provision added to the budget to cover any implications of IJB overspends in 2025/26. Discussions continue with Chief Executives of the partner bodies, IJB Chief Officers and IJB Chief Finance Officers on the IJB savings programmes for 2025/26. The Director of Finance has indicated to IJB Chief Officers and Chief Finance Officers that robust financial plans must be in place for 2025/26, with the Board unable to manage in year deviations from the plans.

Work is being undertaken 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.

Given the expected scale of the financial challenge, two workstreams are being taken forward to identify financial savings in the 2025/26 financial year:

### **(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**

All non-delegated services have been asked to submit proposals that target a 10% reduction in the financial resources needed for service delivery through enacting changes to services. 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.

The draft Financial Plan was submitted to Scottish Government on the 27<sup>th</sup> January 2025 and NHS Grampian await feedback on the draft plan. The final plan is due for submission on the 17<sup>th</sup> March 2025. The Financial Plan will be presented to the NHS Grampian Board for approval on the 10<sup>th</sup> 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 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 – 27<sup>th</sup> November 2024.

### **2.4 Recommendations**

The Board is asked to:

- **Note** – that NHS Grampian has been escalated to Stage 3 of the NHS Scotland Support and Intervention Framework.
- **Endorse** – the actions being taken to deliver a projected revenue overspend for the year of £67.5 million noting that NHS Grampian has a revenue overspend of £49.9 million for the nine months to the end of December 2024.



- **Endorse** – the financial planning approach 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.

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

The following appendix/appendices are included with this report:

- Appendix 1 – Finance Report for Month 9 2024/25
- Appendix 2 – Escalation to Stage 3 Letter to NHS Grampian