Agenda Item 5

NHS Highland

Meeting:	**NHS Highland Board Meeting**
Meeting date:	**29 July 2025**
Title:	**2025/26 Final Budget update**
Responsible Executive/Non-Executive:	**Heledd Cooper, Director of Finance**
Report Author:	**Heledd Cooper, Director of Finance**

Report Recommendation:

The Committee is asked to **Examine** and **Consider** the content of the report, to **Agree** the current budget and outline approach, and take **Moderate Assurance**.

1 Purpose

This is presented to the Board for:

- Agreement

This report relates to a:

- Annual Operating Plan

This report will align to the following NHSScotland quality ambition(s):

Safe, Effective and Person Centred

This report relates to the following Strategic Outcome(s)

Start Well		Thrive Well		Stay Well		Anchor Well	
Grow Well		Listen Well		Nurture Well		Plan Well	
Care Well		Live Well		Respond Well		Treat Well	
Journey Well		Age Well		End Well		Value Well	
Perform well	X	Progress well		**All** Well Themes			

2 Report summary

2.1 Situation

NHS Highland is required to agree a budget for the financial year 2025/26 based on projected spend, estimated inflationary and growth impact and agreed funding. A finance plan was submitted to the Scottish Government (SG) on the 19th March 2025.

On the 31st March NHS Highland received its feedback letter stating that "The Board has the second highest level of outstanding brokerage across NHS Scotland at the end of 2024-25 and the forecast position for 2025-26 represents a further decline in the Board's financial sustainability. On this basis, I cannot approve the NHS Highland three year finance plan."

The letter set out the requirements for the Board:

• You must not exceed a net financial deficit of £40 million. I therefore expect you, with support from your Board, to develop a recovery plan to reduce expenditure and operate within this set limit and for this plan to be submitted for review by 7 June 2025.

• You must deliver a minimum 3% recurring savings target, progress against which will be monitored monthly.

This report is to provide the Board with an updated 3-year financial plan 2025/26 to 2027/28 for approval and sets out the actions proposed to reduce the financial gap to the SG requirements.

2.2 Background

On 4 December 2024 all Boards received a Scottish Government Budget 2025/26 letter providing details of the indicative funding settlement for NHS Boards.

The planning approach confirmed the needs for financial plans to present:

- a clear programme of work and supporting actions to achieve 3% recurring savings on baseline budgets over the three year period
- an improved forecast outturn position in 2025-26 compared to the forecast outturn position reported at the start of 2024-25, with improvements in the financial position being achieved in each of the years to 2027-28 for those Boards not in financial balance

- 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
- No brokerage will be made available in 2025-26
- Should financial balance not be achieved this will be shown as an overspend in financial statements, leading to potential qualification of accounts and Section 22 report, as well as consideration of escalation status

At the Board meeting of the 27th May the draft budget submitted to the SG was presented but recognising that NHS Highland did not submit a plan that satisfied the requirement to demonstrate a trajectory of improvement. Therefore, a request was made by SG to resubmit the plan with a projected outturn of no more than £40 million and the submission would be re-presented to the Board.

2.3 Assessment

Work has been undertaken to assess the potential actions required to deliver the ask of Scottish Government and a plan to deliver £40m was provided to the government with the agreement of the Finance, Resource and Performance Committee on the 6th June.

The process for identifying the financial improvement actions is noted below.

Stage 1 – the plan was recalculated based on the 2024/25 actual outturn position which identified an improved opening position of £5.538m as highlighted below:

Table 1 – Revised three-year plan based on 24/25 outturn

Movement in plan post March Submission	Recurrent £000s	Non-recurrent £000s	Total £000s
March Plan	(139,519)	23,922	(115,596)
Changes post March Submission:			
Offsets to Acute Cost Pressres to match 2024-2025 Out-turn	2,145		2,145
Offsets to HHSCP Cost Pressres to match 2024-2025 Out-turn	3,393		3,393
Financial Gap before Savings	(133,981)	23,922	(110,058)

Stage 2 – review of VEAG and STAG workstreams
Work is ongoing in this area to provide assurance that the current 3% saving projection can be delivered and the financial contribution of the STAG programmes over the coming 3 years.

Stage 3 – assessment of further non-recurrent actions that could be delivered to support the position which are detailed in the table below:

Table 2 – assessment of further non-recurrent actions to be taken

Other NR actions:	2025-26 £000s
Allocation review	2,000
Annual leave accrual (reduce to 23/24 levels)	3,686
A4C non-pay slippage	2,394
Extended Provisions review	1300
New Craigs RAAC money	800
Total actions	**10,180**

The proposed actions can be taken to deliver a reduced outturn on a non-recurrent basis. This is also recognising and accepting the risks that were inherent within the original plan submitted but is not deemed to expose the Board to additional risks as these measures are considered to be deliverable.

The full response to SG has been included in Appendix 1 and the letter of response in Appendix 2 accepting the re-submitted plan.

2.4 Proposed level of Assurance

Substantial		Moderate	X
Limited		None	

Comment on the level of assurance

Moderate assurance that a plan has been identified to deliver a £40m deficit position for 2025/26 but recognising the risk that remains around the delivery of 3% cost reductions and a balanced ASC and IJB position.

3 Impact Analysis

3.1 Quality/ Patient Care

The impact of quality of care and delivery of services is assessed at an individual scheme level using a Quality Impact Assessment tool. All savings are assessed using a Quality Impact Assessment (QIA).

3.2 Workforce

There is both a direct and indirect link between the financial position and staff resourcing and health and wellbeing. Through utilisation of the QIA tool, where appropriate, the impact of savings on these areas is assessed.

3.3 Financial

The scale of the challenge to deliver the planned deficit position and the requirement to produce a plan to reduce the deficit to £40m as per SG requirements.

3.4 Risk Assessment/Management

There is a significant risk that NHS Highland cannot deliver the required financial position for 2025/26.

The scale of challenge to deliver 3% recurrent savings is significant and cannot be underestimated which is reflected across the full Board area including Argyll and Bute – where the risk of non-delivery is high.

The risk to delivering the Adult Social Care reductions is high with no clear plan in place to deliver change to reduce the financial outturn in year to a balanced position.

There continue to be ongoing operational risks that may not have been fully provided for in the plan and will need in year mitigation.

3.5 Data Protection

There are no Data Protection risks associated with this report.

3.6 Equality and Diversity, including health inequalities

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

3.7 Other impacts

None

3.8 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:

- Executive Directors Group – via monthly updates and exception reporting
- Value & Efficiency Group
- Finance, Resource and Performance Committee
- Area Partnership Forum
- Staff Governance Committee
- Monthly financial reporting to Scottish Government

3.9 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.

- EDG
- FRPC
- SG

4.1 List of appendices

Appendix 1: NHS Highland 2025-28 Financial Plan letter of response

Appendix 2: NHS Highland 2025-28 Financial Plan Addendum letter

NHS Highland

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Mr Alan Gray
Director of Health and Social Care Finance
Scottish Government

By email: Alan.Gray2@gov.scot

Date: 6 June 2025
Your Ref:
Our Ref: HC/FD/CL

Enquiries to: Fiona Davies
Email: fiona.davies5@nhs.scot

Dear Alan

NHS Highland – Three-Year Financial Plan

Thank you for your response to the NHS Highland three-year financial plan submission in March. We noted your expectation to review the submission and identify further actions required to reduce the planned deficit for 2025-26 to a maximum of £40m.

In response to this, our Director of Finance, Heledd Cooper and her team have been meeting with you and your team on a weekly basis to ensure that we are able to provide a comprehensive assessment and revised plan that the Board is comfortable that it can deliver, noting of course the significant risks that sit within our initial plan.

Background and context

I would like to take this opportunity to provide some context to the NHS Highland geography and demographics.

NHS Highland provides services across 40% of the total Scotland land mass and services a population of over 330,000. Our services are delivered across four acute sites, 17 community hospitals and numerous community settings. We have 66 care homes in the Highland Council area, of which 50 are independent. We have seen an increase in care homes permanently closing in the past years, and we are unique amongst territorial boards in having a lead agency model for health and social care in the Highland Council area, with NHS Highland having responsibility for delivering adult social care. In Argyll and Bute, we operate as part of an Integrated Joint Board.

The diverse geography includes Inverness, one of the fastest growing cities in Western Europe, and 36 populated islands (23 in Argyll & Bute and 13 in Highland). Our population lives with some challenges, including areas of deprivation and inequality and issues arising from fuel poverty and availability, complex transport difficulties and the rising cost of living. People living in the NHS Highland area are also older than the Scottish average and can have increasingly complex health and care needs. The economy is heavily reliant on tourism, with seasonal work being common, although an impact of COVID has seen tourism become much more of a year-round business, and that has added to our staffing challenges.

The following data has been extracted from the 2023 population estimates (NRS).

Table 1 – Age profile of the Highland population:

Area name	Area type	% 65 and over	% 75 and over
Dumfries and Galloway	Health board	28%	13%
Western Isles	Health board	27%	13%
Borders	Health board	27%	13%
Orkney	Health board	25%	12%
Highland	Health board	25%	12%
Ayrshire and Arran	Health board	24%	11%
Tayside	Health board	23%	11%
Shetland	Health board	22%	11%
Fife	Health board	22%	10%
Forth Valley	Health board	20%	9%
Grampian	Health board	20%	9%
Lanarkshire	Health board	19%	9%
Lothian	Health board	17%	8%
Greater Glasgow and Clyde	Health board	18%	8%

Area name	Area type	% 65 and over	% 75 and over
Scotland	Country	20%	9%
Argyll and Bute	Council area	27%	13%
Highland	Council area	24%	11%

Table 2 – Working age population and median age

Area name	Area type	Persons Median age	Total population	% working age population
Lothian	Health board	39.44	905,800.00	69%
Greater Glasgow and Clyde	Health board	39.73	1,179,200.00	68%
Lanarkshire	Health board	43.21	668,380.00	65%
Forth Valley	Health board	44.10	302,810.00	65%
Grampian	Health board	42.76	582,300.00	64%
Tayside	Health board	44.37	414,270.00	63%
Fife	Health board	44.52	371,390.00	63%
Shetland	Health board	44.99	23,020.00	62%
Ayrshire and Arran	Health board	47.93	365,450.00	61%
Highland	Health board	48.96	323,640.00	61%
Orkney	Health board	49.54	22,030.00	60%
Western Isles	Health board	51.29	26,120.00	59%
Borders	Health board	50.86	116,820.00	59%
Dumfries and Galloway	Health board	51.42	145,770.00	59%

Area name	Area type	Persons Median age	Total population	% working age population
Scotland	Country	42.88	5,490,100.00	65%
Argyll and Bute	Council area	51.36	87,810.00	60%
Highland	Council area	48.03	236,330.00	62%

Table 3 – Population density

Area name	Area type	Population density (persons per km^2)
Greater Glasgow and Clyde	Health board	1,081
Lothian	Health board	533
Lanarkshire	Health board	300
Fife	Health board	282
Forth Valley	Health board	115
Ayrshire and Arran	Health board	109
Grampian	Health board	67
Tayside	Health board	56
Borders	Health board	25
Dumfries and Galloway	Health board	23
Orkney	Health board	22
Shetland	Health board	16
Highland	Health board	10
Western Isles	Health board	9

Area name	Area type	Population density (persons per km^2)
Scotland	Country	70
Argyll and Bute	Council area	13
Highland	Council area	9

Note: shaded areas are Boards in financial escalation level 3 or above.

Financial history

As you will be aware, NHS Highland has been under financial escalation and intervention since at least 2013. The most recent escalation was in 2018, when the board was placed at Stage 4 of the NHS Scotland Performance Escalation Framework due to financial and governance concerns. In June 2021, NHS Highland was moved to Stage 3, indicating improved governance, leadership, and culture, though challenges remain with our financial position.

NHS Highland has also historically been funded below the NRAC target and, although we are now funded within 0.6% of parity (which equates to over £10m of funding), there is a cumulative impact of under-funding over the years, with less funding to invest in our rural services in particular.

Adding to this financial challenge is the previously mentioned Lead Agency model of integration. Since integration, the Adult Social Care provision has received no uplift funding other than any allocations directly funded by Scottish Government. In the recent years, Scottish Government has provided NHS Highland with additional funding to cover any Agenda for Change pay increases above baseline assumptions (leaving NHS Highland with the core gap to manage). This, alongside the NHS staffing model for Social Care staff, reducing independent providers and a disincentivised market landscape, has caused providers to exit the Highlands, resulting in reduced social care provision or increased cost due to directly provided NHS social care. The direct additional cost of Social Care has not only contributed to the overall financial deficit but has also resulted in less funding being available for Health.

Below is an illustration of the financial position of the Board over the past few years – which shows that the opening deficit of NHS Highland has stayed relatively stable around £100m underlying deficit, with a greater deterioration in 2024/25 to reflect the 0% uplift to baselines. This also shows the level of non-recurrent actions that have been utilised to reduce the opening position each year. These opportunities are reducing each year and has masked the true position over the past years.

Table 4 - NHS Highland Financial Plan history

Plan	2022-23 £000s	2023-24 £000s	2024-25 £000s	2025-26 £000s	Revised 25-26 £000s
Opening deficit	-84.52	-98.17	-112.50	-115.60	-110.06
Recurrent savings	19.00	20.00	26.73	29.76	29.76
NR actions	49.25	9.50	35.17	30.12	40.30
Planned deficit	**-16.27**	**-68.67**	**-50.60**	**-55.73**	**-40.01**
Actual deficit	**-15.81**	**-29.24**	**-49.5**		
Actual recurrent savings	9.90	8.113	21.309		
ASC deficit	5.60	9.87	16.7		

To note – ASC 2022-23 and 2023-24 was offset with reserves in year; 2024-25 was reduced by £5.6m of THC transformation fund.

Finance Plan Review

NHS Highland's Executive team has been fully involved in all discussions and agreements since receipt of your letter.

A decision was taken at the Executive Director's Group (EDG) meeting that the areas to scrutinise for an improved outlook would be:

- The March plan based on a revised 24/25 outlook
- Value and Efficiency (VEAG) workstreams
- Strategic (STAG) workstreams
- Any further non-recurrent benefits/ actions to be taken

It was also agreed that no actions that would reduce services or activity that sat outside of this process would be considered or suggested at this time.

The finance team undertook the initial action to re-work the plan and identified an improved opening position based on the 24/25 position of £5.538m as highlighted below:

Table 5 – Revised NHS Highland three-year plan based on 24/25 outturn

Movement in plan post March Submission	Recurrent £000s	Non-recurrent £000s	Total £000s
March Plan	(139,519)	23,922	(115,596)
Changes post March Submission:			
Offsets to Acute Cost Pressres to match 2024-2025 Out-turn	2,145		2,145
Offsets to HHSCP Cost Pressres to match 2024-2025 Out-turn	3,393		3,393
Financial Gap before Savings	(133,981)	23,922	(110,058)

There has also been a significant amount of work undertaken by managers in collaboration with both the Strategy & Transformation and Finance teams to refine the VEAG and STAG workstreams. Although these have not yet identified additional opportunities within the year, they have provided a greater level of assurance around the delivery of the 3% savings target for VEAG and work is ongoing to calculate financial benefit for the STAG programmes over years two and three.

Scrutiny of the balance sheet, allocations and other non-recurrent benefits not currently captured within the finance plan has also been undertaken, with further actions being identified to reduce the gap in year.

Table 6 – assessment of further non-recurrent actions to be taken

Other NR actions:	2025-26 £000s
Allocation review	2,000
Annual leave accrual (reduce to 23/24 levels)	3,686
A4C non-pay slippage	2,394
Extended Provisions review	1300
New Craigs RAAC money	800
Total actions	**10,180**

NHS Highland has introduced a new allocation review process to ensure that scrutiny is undertaken of all new allocations or those where full allocation has yet to be drawn down, which we have assessed will release c£2m through slippage in utilisation. The annual leave accrual is to be reduced to the 2023/24 closing position through greater visibility and oversight of annual leave usage and an assessment of the total use of the A4C pay reform funding in year has been undertaken.

The cumulative result of this work is a revised plan which is summarised below:

Table 7 – Revised NHS Highland three-year financial plan following further actions

	2025-26 £000s	2026-27 £000s	2027-28 £000s
Deficit Brought Forward	(109,817)	(104,224)	(93,593)
New Funding	92,420	51,530	52,575
Inflation/New Pressures	(92,661)	(63,393)	(65,202)
Less savings/ reductions	59,873	55,862	57,536
Additional NR actions	10,180		
Net Gap before Savings	**(40,005)**	**(60,225)**	**(48,684)**

I can therefore confirm that NHS Highland is submitting a revised plan with a trajectory to deliver a forecast deficit of £40m as requested by Scottish Government.

Risks

I will also take this opportunity to reiterate the level of financial risk being held in the original plan submitted in March, which remain as live risks as we navigate through the 2025/26 financial year.

The key risks are:

1. Adult Social Care position – There is currently a £26m gap in the ASC position for 2025/26, and in line with 2024/25 we are reporting that this gap will be closed during the year, in part through a 3% savings target, equating to £6.192m, the remaining £19.8m is being driven through an ASC STAG workstream, but is unlikely to deliver the full gap in year. Therefore, the risk of delivering this position is high.
2. Argyll & Bute IJB – has been allocated a 3% savings target to deliver a balanced position, circa £2m of this has identified plans, but the remaining is as yet unidentified. The IJB has been requested to produce a recovery plan for the remainder – but currently is a moderate risk.
3. North Highland & Acute 3% savings target – 3% is an ambitious target and is a moderate delivery risk.
4. SLA uplift – NHS Highland, and in particular Argyll & Bute is a high exporter of cross-Board activity. Whilst the SLA uplift takes into account all funding uplifts received by the Board to transfer to other NHS Boards, it does not equally transfer a savings target expectation. Therefore, reducing the ability to deliver savings against a significant portion of allocation and limited efficiency of scale opportunity whilst providing equality of services over a remote and rural geography.

These risks will be managed and monitored throughout the year and we look forward to working with your teams to discuss the risks and opportunities.

Forward look

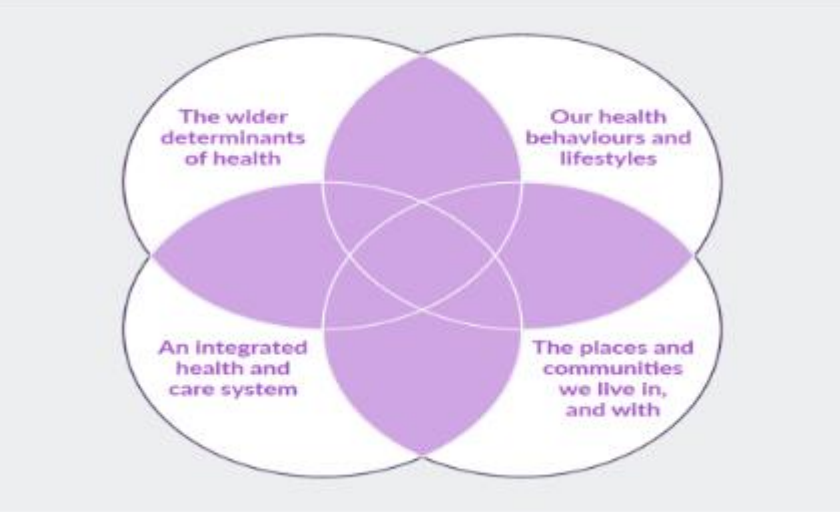
NHS Highland agreed a proposal to deliver a new strategy for 2026 to refresh the Together We Care strategy and ensure we are equipped to deal with the unprecedented challenges ahead for both health and social care into the future.

A new Population and Public Health Committee is being created to oversee the development and delivery of the new strategy. The diagram below sets out what is required from the Board to shift focus to a population health approach.

A refresh of NHS Highland's vision and strategic objectives is essential to set out how we will deliver on high value and sustainable care into the future.

In creating the new strategy we need to understand the Population Health of NHS Highland and plan for high value sustainable care by:

- Understanding the health and health needs of the population utilising our joint strategic needs assessment.
- Provide evidence to demonstrate needs and capture improvement in population health outcomes, as part of our governance framework.
- Community collaboration; learning from those with lived experience.
- Maximise use of health and wellbeing information intelligence.
- We need to work locally, regionally and nationally with our partners, including local councils, Health and Social Care Partnerships, voluntary organsiations and community groups to develop a local population health system and to explore the best approaches. System focus and collaboration is essential to tackle system-wide challenges that cannot be solved by one organisation, sector or profession alone to improve the health of the population and tackle inequalities.
- Decreasing health inequalities in conjunction with Community Planning Partners.
- Address social determinants of health.
- Ensure equality of access to health care.
- Reducing health harming activities and risks from smoking, drugs and alcohol, low levels of physical activity. (Implement and use the Public Health Annual report as a springboard for this work.)
- Improve the mental health of our population.
- Maximising the impact on our local economy through our role as an Anchor Institution utilising Marmot principles to target key communities or groups needing focus.



The diagram above is from the Kings Fund and it details a model for population health. It is proposed that this could be a potential framework on which to build the new board strategy.

We are keen to work with you over the coming months and years to stabilise the financial position of NHS Highland and to enable the Board to deliver sustainable services for our people.

Yours sincerely

Fiona Davies

Fiona Davies
Chief Executive

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Riaghaltas na h-Alba
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Fiona Davies
Chief Executive
NHS Highland

Cc:
Chair, NHS Highland
Heledd Cooper, Director of Finance

Dear Fiona

NHS Highland – 2025-26 Financial Recovery Plan

Thank you for submission of your revised financial plan for 2025-26 and would acknowledge the commitment from you and the wider team to reducing the forecast deficit.

The revised plan identifies options to improve the forecast deficit from £55.7 million to £40.0 million, a 28% reduction. I am content to accept the plan as submitted on the basis any unexpected in year benefits are used to reduce the 2025-26 deficit and any in year pressures are managed within existing budget.

The revised plan assumes total financial savings of £65.8 million, with a recurring savings target of £29.8 million, which does meet the Scottish Government target of at least 3% recurring savings. We also note a number of the savings schemes set out are high risk and will work with you to understand delivery during the year.

As previously indicated, the Accountable Officer for NHS Highland has a statutory responsibility to achieve a breakeven position or where this cannot be met, to set out a plan and timescale for this to be achieved. Although the revised financial plans include a lower deficit for 2025-26, NHS Highland forecast an increase in deficit in future years. Further work will be required during the year on options to reducing the 2026-27 and 2027-28 deficit positions and finance and performance colleagues within the Scottish Government will continue to provide support to deliver an improved financial outturn, including mitigating the additional risk arising from adult social care.

I would wish you and colleagues in NHS Highland all the best for the future.

Yours sincerely

Ala Gray

Alan Gray
Director of Health and Social Care Finance