

NHS Highland



NHS
Highland
na Gàidhealtachd

Meeting: NHS Highland Board Meeting

Meeting date: 27 May 2025

Title: 2025/26 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 **Limited 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 Scottish Government (SG) on the 19th March 2025. Details of the plan will be provided below.

On the 31st March NHS Highland received its feedback letter (Appendix 1) 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.” Following the 2024/25 year end position, the full brokerage value totals £106.5m

This report is to provide the Board with a 3-year financial plan 2025/26 to 2027/28 for approval and sets out the process to identify and deliver further actions required 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 key messages for the health and social care portfolio were as follows:

- 3% uplift on baseline funding in 2025/2026
- To meet expected costs of 2025/2026 pay awards in line with public sector pay policy and provides a 3% uplift to support non-pay inflationary pressures
- Recurring funding for impact of 2024/2025 pay awards has been built into baseline
- Additional £55.6m has been provided to ensure no Board is further than 0.6% from NRAC parity
- £150m of funding to support continued implementation of the 2023/2024 Agenda for Change pay deal
- Further discussions to take place on impact of changes to NI
- Commitment to provide additional funding to:
 - reduce waiting lists
 - support reduction of delayed discharges
 - renew primary care enhancements

- Number of areas of work underway to support NHS Boards and collectively improve the financial position:
 - 15 box grid
 - Productivity
 - Value Based Health and Care
 - In addition to the baseline uplift, funding aligned to policy commitments will be allocated to Boards in 2025/2026 – intention is to provide early indication of allocations with 80% confirmed in quarter 1
- £140m transferred to Local Government to support commitment to:
 - Real Living Wage
 - Free Personal Nursing Care rates
 - Provide additional voluntary sector short breaks funding for unpaid carers

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

The letter of the 31st March also confirmed an expectation for NHS Highland where:

“• 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.”

2.3 Assessment

Finance plan submission:

NHS Highland submitted a draft 3-year finance plan on the 19th March which detailed the funding assumptions, growth, national programmes and cost reduction options for 2025/26.

FRP committee has received regular updates on the Financial Plan over recent months, with each version providing the latest update available at that time.

Table 1 below provides a summary of the financial position for the 3 years to 2026/27 as submitted in March. A further breakdown for 2024/25 is provided in Appendix 2.

Table 1 – 3-year financial projections

	2025-26 £m	2026-27 £m	2027-28 £m
Deficit Brought Forward	(123.435)	(109.762)	(99.131)
New Funding	92.420	51.530	52.575
Additional costs	84.581	63.393	65.202
Net Gap before Savings	(115.596)	(121.625)	(111.758)
Recurring savings/ reductions	29.757	33.811	34.825
Non-recurrent reductions	30.116	22.051	22.711
Subtotal reductions	59.873	55.862	57.536
Total Financial Plan	(55.723)	(65.763)	(54.222)

Cost Improvement/ Reduction Programme

Given the scale of the financial challenge facing NHS Highland, the Board implemented a strategic planning and decision-making framework in order to plan for and deliver the short, medium and long term changes required to support a route to financial and service sustainability which continues to be adopted into 2025/26.

The cost improvement programme has been developed around the above framework and is summarised as follows:

Value and Efficiency:

The Board has continued with its Value and Efficiency programme which has an overall target of delivering 3% financial reductions on a recurring basis which in line with the requirement set out by Scottish Government. A series of workstreams were identified in 2024/25 which have been refreshed for 25/26 that will contribute to achieving financial efficiency for NHS Highland whilst maintaining the delivery of safe high-quality, person-centred care.

These areas have been included as areas where we can deliver the same service but either at a cheaper price (through procurement, fixed rates) or more efficient processes, (improved fleet utilisation, use of technology etc). The savings targets are provided in Appendix 3.

Financial flexibility:

There is level of non-recurrent benefit that occurs each year, either through slippage against allocations or through adjustment in annual balance sheet items. These are fortuitous but can be estimated from historic information. An estimated level of financial flexibility has been included within the plan.

Adult Social Care:

Due to the lead agency arrangement in place for delivering Adult Social Care Services within the NHS Highland area which is coterminous with Highland Council the costs of delivering services and the associated income from Highland Council are reflected in this financial plan submission.

It is estimated that there will be a gap of £23.060m between the estimated cost and available funding. The reduction in quantum in 24/25 of £7m has been confirmed as recurrent and no further reduction has been applied. Included within the plan is as estimate of the cost impact of the NI increase on directly employed staff, but nothing has been included for contracted independent providers. The Highland Council has confirmed a provision for ASC NI contribution within their budget but no confirmation of values has been provided at this time and therefore not included within the plan, but would reduce the current estimated gap.

Argyll & Bute HSCP:

The Argyll & Bute 2025/26 budget was presented at the March IJB Finance & Policy Committee meeting. The report set out an unbalanced budget, with a gap of £7.850m, which equates to 3% of baseline allocation.

The cost reduction/ improvement plan has currently identified £3.312m of savings, leaving an unidentified gap of £4.538m.

The Board's financial Plan has assumed that both the IJB and ASC lead agency model will live within their delegated resource, whilst acknowledging the risk.

Table 2 – summary of cost reduction actions identified.

	£m	£m
Financial Gap		115.596
Maximum Brokerage		-
COST REDUCTIONS/ IMPROVEMENTS		115.596
<i>Cost Improvement/ Reduction Programmes</i>		
Value & Efficiency 3% of baseline (NH)	20.353	
A&B - 3% of baseline	7.852	
ASC - 3%	6.192	
Delivering ASC to breakeven	19.838	
Allocations Slippage	1.000	
Financial Flexibility	4.638	
Other actions to be identified	-	
Opportunities		59.873
Gap to In Year Financial Balance		55.724

Next steps

Given the instruction by SG to reduce the position to £40m gap and resubmit a plan by the 7th June there are several stages that need to be undertaken to deliver this requirement.

The Executive team set out the approach to identify the options available to progress this and agreed a targeted intervention to:

1. Review all Value & Efficiency plans and scrutinise financial values and deliverability in order to ensure the 3% plan is delivered
2. Review the Strategic design plans to identify the potential financial benefits in 2025/26 and opportunity to accelerate change
3. Revisit the financial plan in light of the 2024/25 financial outturn and test planning assumptions
4. No service reductions would be presented to SG that do not align with current programmes of work.

This work is ongoing and will be presented to the Executive Team and Finance, Resource and Performance Committee prior to submission to SG.

Final Assessment and proposal

To progress an agree an opening budget for NHS Highland there is a need to recognise the plan as it stands and the ongoing work with SG to deliver an improved position.

Scottish Government has affirmed that there is a statutory responsibility for NHS Boards to live within the resources allocated and deliver a plan to financial balance. No Board is to be provided with brokerage in 2025/26 and NHS Highland is expected to deliver to a £40m deficit.

The current proposal is to agree the plan as represented within Table 2 above and to work with Scottish Government to refresh the plan which will then be re-presented to the Board.

2.4 Proposed level of Assurance

Substantial	<div></div>	Moderate	<div></div>
Limited	<div>X</div>	None	<div></div>

Comment on the level of assurance

Only limited assurance can be given that NHS Highland can deliver the level of savings required by SG and the delivery of a plan that reduces the gap further in year. Although assurance should be taken from the robust approach and identification of pressures and mitigations.

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
- Board Development
- SG

4.1 List of appendices

- Appendix 1: NHS Highland 2025-28 Financial Plan letter
- Appendix 2: Additional funding and costs
- Appendix 3: List of identified areas and projected savings

Appendix 1: NHS Highland 2025-28 Financial Plan letter



NHS Highland
2025-28 Financial Pla

PLEASE NOTE: THIS EMBEDDED DOCUMENT IS INCLUDED AT THE END OF THIS REPORT FOR EASE OF ACCESS

Appendix 2: Additional funding and costs

Table 1 – Additional funding

Additional Funding	
	£m
Baseline uplifft	27.010
NRAC adjustment	15.282
New Medicines	16.700
Other new allocations	29.235
Additional income	6.660
	94.886

In addition to the budget letter, further confirmation has been provided to include:

- Funding for National Insurance increase will be provided at 60% for directly employed staff only
- £250m sustainability payment has been made available to territorial boards on a non-recurring basis – with clarity that this is a one off exceptional item and should be used to reduce the deficit and is not for additional investment
- A further sustainability payment of £70m will be made recurrently to territorial boards (£10m available for national boards) and mush be used to offset in year pressures.

And have been included within the plan.

Table 2: Additional costs

Total Additional Costs	
	£m
Pay Uplift	19.961
Other Pay Pressures	3.256
Prescribing	17.531
Estates & Infrastructure	2.167
Digital	3.227
SLAs	6.501
National & Policy Decisions	15.220
Other Pay Pressures	16.719
	84.582

- Pay uplifts based on establishments
- Other uplifts in line with national assumptions (except Energy)
- Includes ASC uplifts
- Full impact of NI increase included

Table 3: Inflation/ uplift assumptions

Spend Area	Uplift Assumption	Notes
Drugs	10.0%	
Energy	0.0%	National assumption is -19%. Has been assumed as no movement based on local review
General	2.2%	
SLAs	3.0%	Based on non-pay baseline uplift. Will be higher when pay uplift built in but pay element should be fully funded
Rates	5.0%	
CHAS Contribution		Assume £9m on an NRAC basis

CNORIS Contribution		Assume £80m on same basis as 2024/2025
NSD Risk Share		Assume in line with 2024/2025

Table 4: Recurrent pressures brought forward from previous years:

Brought Forward Pressures	
	£m
Unachieved Savings (prior years)	15.161
AfC Staff	9.609
Medical & Dental Staff	9.795
Other	91.311
	125.876

- Includes savings not achieved or achieved non-recurrently in earlier years
- Investments not fully funded or where funding has ceased but service has continued (eg developments during Covid)
- Pressures accumulated over a number of years

Appendix 3: List of identified areas and projected savings:

Scheme	Estimate
Time to care	3.000
Nurse Agency Reduction	2.792
Reduction in locum use	1.138
Non Compliant Rota Review	0.275
AHP Direct Engagement	0.100
TARA	0.900
Corporate Consolidation	0.500
ONS Direct Supply	0.060
Prescribing Switches	1.670
Medicines Waste/ Polypharmacy Reviews	2.000
Energy Procurement	1.700
Leases & Agile Working	0.250
SLA Income	0.500
Income Generation	0.130
Travel	0.190
Review SLA expenditure	0.500
Vaccinations	0.300
Procurement	1.500
HHSCP Redesign	2.418
Other	0.430
TOTAL	20.353



E: alan.gray2@gov.scot
31/03/2025

Fiona Davies
Chief Executive
NHS Highland

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

Dear Fiona

NHS Highland – Three-Year Financial Plan

Thank you for the submission of NHS Highland's Three-Year Financial Plan, covering 2025-28.

I note that NHS Highland is forecasting a net financial challenge of £55.7 million in 2025-26, after taking account of the sustainability funding. This is a deterioration compared with the prior year (excluding sustainability) and despite a 3% baseline uplift. As a Board at level three of the NHS Scotland Support and Intervention Framework, I would expect to see improvement in your financial plan year on year.

The plan assumes total financial savings of £59.9 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 this target includes savings for Adult Social Care (ASC) for which it has been assumed will break even.

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.

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.

Requirements in 2025-26

For 2025-26, as Accountable Officer, you must work within the following financial parameters:

- 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.

The Board must continue to work with both finance and performance colleagues within the Scottish Government to consider options to reduce expenditure to deliver an improved financial outturn, including managing the additional risk arising from ASC.

I understand you have had external support from Meridian during 2024-25. We expect to see opportunities identified through this work being aligned with future planning to ensure savings are realised.

We expect to see improvement against the financial plan throughout 2025-26 and continued engagement with the Director of Health and Social Care Finance and the Financial Delivery Unit. As a Board in escalation for financial reasons, I expect appropriate action to be taken to improve the position.

Financial Delivery Unit support

Colleagues in the Health Finance Financial Delivery Unit will work with you to:

1. Monitor progress against the financial parameters set out above;
2. Review the further development of the Board's savings plan,
3. Explore emerging risks and mitigating actions being taken by the Board; and
4. Work collaboratively with you to identify any further measures to reduce the Board's residual recurring financial gap.

We will also work with yourselves and NHS Scotland Chief Operating Officer in relation to the 2025-28 Delivery Plan. Should there be any material changes to your finance plan as a result of feedback on the Delivery Plan we will review this with you.

Senior Finance Team engagement

I would also seek the continued representation of members of the Board's senior finance team at key forums such as: Directors of Finance meetings, Corporate Finance Group, Financial Improvement Network, Technical Accounting Group and Financial Accounting Network. This input is important to ensure we have a collective understanding of any emerging pressures, can continually review the assumptions underpinning the finance plans and access relevant knowledge and expertise. In

addition, we expect NHS Boards to continue to use these groups to share learning, savings schemes, and opportunities for improvements.

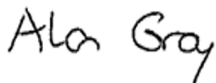
Scottish Government Financial Allocations

We recognise the importance of providing certainty over funding and allowing NHS Boards to focus on delivering key outcomes. The Scottish Government's Health and Social Care Directorates are currently reviewing all allocations to identify which can be baselined, bundled, or issued early in 2025-26. We are also working to rationalise in-year allocations and will provide an update in due course.

The above sets out our expectations for the coming financial year and underlines the importance of the Board taking appropriate action to improving its financial position beyond that set out in your draft plan.

Should you wish to discuss the requirements in this letter further, I shall be happy to organise a call to respond to any questions or queries you may have.

Yours sincerely,

A handwritten signature in black ink that reads "Alan Gray". The signature is written in a cursive, slightly informal style.

Alan Gray
Director of Health and Social Care Finance