

Agenda Item	<b>4</b>
Report No	<b>HCW-01-26</b>

# The Highland Council

**Committee:** Health Social Care & Wellbeing Committee

**Date:** 4 February 2026

**Report Title:** Revenue Budget Monitoring Report – Q3 2025-2026

**Report By:** Assistant Chief Executive - People

## 1. Purpose/Executive Summary

1.1 This report sets out the revenue budget monitoring forecast for the Health and Social Care Service for the third quarter of 2025/2026. Details are provided in **Appendix 1** to this report.

1.2 The Service is currently reporting an overspend of £3.819M in terms of the forecast outturn position for Quarter 3. This is a deterioration of £0.392M on Quarter 2. Members will recall that at the end of Quarter 2 the figure was £3.427M which was an improvement on Quarter 1 of £0.691m however there have been a number of new Out of Authority Placements in that period with a further placement anticipated which has added £1.239M to those budget lines. Work is underway across the whole service to manage costs downwards to help to offset these pressures.

The Service has continued to progress Phase 1 of the Budget Recovery Plan. The Committee is aware that pressures exist in relation to the delivery of Children's Services and accordingly a robust recovery plan had been prepared to address that challenge. Key to that plan is the delivery of improvements that will be achieved through the projects within the Person Centred Solutions Portfolio and particularly the Home in Highland Programme such that ultimately fewer children will be cared for in residential establishments.

1.3 Budget savings for 2025/2026 are detailed within this report and there is a confidence that these will be largely achieved in year with a potential shortfall on Procurement Savings of between £0.036M to £0.073M. As indicated at the last committee, savings which had previously been marked as unallocated have now been realigned to the relevant budget lines which properly reflect where the pressures exist which is principally in relation to the delivery of services to looked after children.

1.4 The position in relation to adult services also requires to be noted. The monitoring statement shows no material variance against the Council's budget for Adults. This is standard reporting given the lead agency model in place which provides for the full budget quantum for the delivery of adult social care services being passed across to NHS Highland (NHS). However, this does not provide for identification of variances in expenditure against the budget. **Appendix 2 figures** (which provides the month 8 figures as provided by NHS) ought be considered in that regard. This anticipates an

end of year overspend in the region of £21.27m against the NHH ASC budget, assuming the full delivery of an applied internal savings target of £6.192m (3%). This is a deterioration of the figures reported to the Committee in Quarter 2. It is unlikely that savings will be delivered in full and the savings attached to the Delivery Plan are unlikely to be achieved. The transformation agenda is intended to support the work ongoing in terms of mitigation of this challenge. Members will also be aware that there is ongoing work to address the model of integration in place and that too is expected to have a positive impact on the budget challenge. That work is however unlikely to have any impact in 2025/2026.

- 1.5 The purpose of this report is, therefore, to support the Council's overall financial management and budgetary control arrangements. This report also supports the Committee and its Members in fulfilling the Scheme of Delegation in relation to financial management and remit of Strategic Committees which includes: *"to scrutinise the management of the Revenue and Capital Budgets for the Services included in the Committee's remit and monitor and control these budgets, including dealing with over- expenditure."*
- 1.6 This report provides Members with commentary on any material variances within the forecast, and actions taken or proposed in relation to those variances. The report also provides a forecast position regarding all budget savings within the remit of the Service.

## 2. Recommendations

- 2.1 Members are asked to:
- i. scrutinise and **agree** the forecast financial position for the year as set out in the report and appendices attached to the report;
  - ii. **note** the explanations provided for any material variances and actions taken or proposed;
  - iii. **note**, the update provided regarding savings delivery;
  - iv. **note** the numbers of children accommodated by the Council and the nature of those placements in terms of the delivery of the recovery plan.

## 3. Implications

- 3.1 **Resource** – This report provides key financial information regarding the Service budget and forecast financial performance, including progress with service delivery. As noted below in the risk section, and in terms of the figures reported, there remains ongoing uncertainty and challenge in terms of the delivery of care at a time where there are significant financial and workforce challenges. This is the case in terms of children's and adult social care services.
- 3.2 **Legal** – The Committee will be aware that the model of integration in Highland is currently being considered by the Partnership. At present the "lead agency" model is in place which has an impact on how both children's and adult care services are delivered. In the event that there is a decision to change to a body corporate model, there would be legal implications in terms of the management of resources.
- 3.3 **Risk** - There is a risk in terms of the delivery of children's services which requires to be mitigated in terms of the overspend position. The risk in relation to the adult care service delivered by NHH is also ongoing and is likely to result in a projected

significant overspend against NHS's budget. The pressures in Adults and Children's services budgets are regularly discussed at the Joint Monitoring Committee and at Chief Executive level.

The Committee will be aware too that a savings target was set against in 2024/2025 the delivery of Adult Social Care of £7m which has been implemented through the reduction of the quantum to NHS. There is a risk that NHS cannot reduce their costs to satisfy the funding reduction which together with additional pressures culminates in the reported forecast overspend which presents a significant risk to the Partnership financial position. NHS is reporting a forecast overspend of £21.27m after assuming delivery of £6.192m of savings which there is also a risk of not delivering in full.

There remains a risk in relation to certain elements of care delivery as referenced within the Council's Corporate Risk Register and this risk remains relevant. The Partnership has also developed its own risk register which has been shared at this Committee and is available online as part of the papers to the JMC. This Committee is also sighted on the risk in relation to recruitment challenges. That creates a risk in terms of service delivery which is also reflected in the Council's Corporate Risk Register.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** - There are no immediate health and safety implications arising from this report.

3.5 **Gaelic** - There are no Gaelic implications arising from this report.

#### **4. Impacts**

4.1 In Highland, all policies, strategies, or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

#### **4.3 Integrated Impact Assessment - Summary**

4.3.1 Although this is a monitoring and update report and an impact assessment is not required, an Integrated Impact Assessment screening was undertaken on 22 October 2025 in relation to the Children's Services Budget Recovery Plan. The conclusions have been subject to the relevant Manager Review and Approval.

4.3.2 The screening process concluded that there are a range of potential positive impacts in relation to children's rights and equality. The screening determined that there was no requirement for a full impact assessment. Members have previously considered the summary below.

## 4.3.3

Impact Assessment Area	Conclusion of Screening
Equality	<ul style="list-style-type: none"> <li>• Children and Young People – <i>Positive</i></li> <li>• Children affected by disability – <i>Positive</i></li> </ul>
Socio-economic	<i>Positive</i>
Human Rights	<i>Positive</i>
Children's Rights and Well-being	<i>Positive</i>
Island and Mainland Rural	<i>Positive</i>
Climate Change	<i>Positive</i>
Data Rights	<i>Positive</i>

## 5. Quarter 3 Outturn

- 5.1 The Service was reporting a forecasted end of year overspend of £4.118m at the end of Quarter 1. By the end of Quarter 2 this had shown a significant improvement as a result of measures developed in tandem with the Budget Recovery Plan which was approved at Committee in November to address service pressures on a sustainable basis. The Children's Services Budget Recovery Plan ("the Plan") is a multi year plan and is key to taking forward the vision of Children's Services as well as the need to address the budget position identified. The Committee will recall that key to that delivery is the intention to, where possible, keep children in local placements which are provided by kinship or family members. Where foster care or a residential placement is required then that should also, where possible, be provided locally by the Council.
- 5.2 Actions taken to manage budget pressures have already resulted in a positive movement of £0.691m, reducing the forecast overspend from £4.118m to £3.427m in Quarter 2. As of Quarter 3 the position has however worsened due to an increase in number of out of authority placements resulting a revised forecast of £3.819m. Key to addressing the overspend is the placement of children and young people and details of movement in that respect is included in the table at **Appendix 3**.
- The Committee will note that a further 6 children and young people are now in a residential placement out of authority. This brings the total of out of authority placements to 44 including 4 in a secure placement. Members will be aware that these placements are the most costly, as well as not necessarily delivering the best outcomes to children and young people, and in terms of the figures have a negative impact. It should be stressed that decisions regarding out of authority placements are taken at a senior level, including all appropriate specialists, and are on the basis of being the only appropriate option.
- 5.3 In terms of the other service areas reflected in the monitoring statements attached as **Appendix 1**, there are no areas to highlight. Spend in terms of Justice is ringfenced and hence balanced and other areas of the service showing underspends are generally as a result of vacancy levels – youth action for example. The Mental Health Officer service is currently operating and delivering service with a projected underspend of £0.051M due to vacancies.
- 5.4 It should also be noted that in terms of the Plan there will be ongoing work in terms of Self Directed Support (SDS) options which also contribute to the budget challenge. There will be monthly scrutiny of SDS plans under £10,000 and work will be carried

out to implement a new resource assessment model that aligns with NHS Highland to provide a more seamless approach at points of transition. Members will be aware that progress is continuing to be made in relation to operating in-house short breaks. The Orchard, Inverness has commenced its short break service with capacity increasing, the new Caithness facility will be operational in February 26 with the Skye facility opening summer 2026.

## 6. Adult Services

6.1 Members will be aware of the significant challenges which exist in terms of the cost of delivery of Adult Services by NHSH. At the present time, delayed hospital discharges and the availability of care have been a significant focus for the Scottish Government. The Committee will be aware that the delivery of adult social care and the associated funding is discussed at the Joint Monitoring Committee, and that there remain regular and ongoing discussions on financial matters between Senior Officials within both organisations. Due to current significant pressures within adult social care, close partnership working is necessary to seek to deal with potential budget pressures.

6.2 A savings target of £7m has been set by the Council for 2025/2026 and is reflected as a reduction in the quantum. This is accompanied by an earmarked reserve available to be drawn down to support the development and delivery of change and innovation through the Delivery Plan in the context of the model of future service delivery set out in the Strategic Plan. Members will recall in previous years that a balanced NHSH budget was managed with the availability of reserves held by the Council on behalf of NHSH (totalling circa £16m over two years). Those reserves were depleted in 2023/2024 so were not available for 2024/2025 to contribute to in-year financial pressures and have not been available in 2025/2026. NHSH did not balance their position in 2024/2025 and Members will recall that in May 2025 the Council agreed a draw down of £7.8m from the Earmarked Reserve leaving a residual £12m carried forward into 2025/2026. The position in relation to adult social care remains very challenging and as at the end of month 4 a budget deficit in the sum of £21.27m was put to the NHS Health & Social Care Committee in terms of **Appendix 2**.

## 7. Commentary on Variances

7.1 In terms of the variances in children's services budget lines shown in **Appendix 1**, Members are asked to note 2 areas as contributing to the final outturn:

**Independent and 3<sup>rd</sup> sector placements** – This budget has historically been overspent as a result of the increasing cost of commissioned placements which have escalated over time and at a rate in excess of inflation. These pressures have previously been largely offset by underspends elsewhere in the service. The reduction of such placements is a key focus of the Recovery Plan developed by the Service at phases 2 and 3 and the use of the independent and commissioned sector is reported regularly to Committee in order to track progress in delivering the Plan and is included at **Appendix 3**. As reported above the number of children and young people has increased which has had a consequential impact on the budget. Consideration is being given to the position across the People Cluster where some underspends within the Education and Learning budgets partly help to offset overspends in this particular area. This is particularly in relation to the Education costs associated with out of authority placements.

**Family Based Care** – This budget line is also under pressure and, like the preceding item, is a key focus of the work being addressed by the Recovery Plan. Whilst it is an area which has not previously been consistently overspent, the pressure arises in part as a result of the portion of the previously unallocated savings that has now been transferred into this budget line. It is also an area which forms a key part of the budget recovery plan and the intention is that there will be an improvement in the budgetary position as a result of increased reliance on kinship placements and in house foster placements thereby reducing reliance on expensive purchased foster placements.

**Home in Highland Provision** – This budget includes the educational provision of those young people who are not educated within mainstream education, many of whom have returned from out of area placements. The service has expanded to offer service to a cohort of young people who are not necessarily looked after but are not accessing mainstream education. As Members will be aware, the Person Centred Portfolio now includes a Learning Without Boundaries workstream which includes the appointment of a Virtual Headteacher which is expected to have a positive impact on (learning) outcomes and the associated costs. It is worth noting in terms of the educational costs more generally for care experienced young people that the work associated with the appointment of a virtual headteacher will also include the educational cost of children accommodated in residential placements outwith Highland.

7.2 The budget lines in terms of adult social care show a nil variance that arises as a result of the lead agency model in place. Members will note the contents of section 6 which outlines the position in terms of the delivery of adult social care by NHS. In terms of the draw down of £7.8m referred to in that paragraph Members will recall that notwithstanding the nil variance showing in **Appendix 1** that reference ought be had to the figures provided by NHS which are attached as **Appendix 2**. In terms of the ongoing financial position for 2025/2026, attached are figures for Month 8 which refers to an anticipated variance of £21.27m, assuming delivery of £6.192m savings on top of this. Members should note that NHS are currently reporting figures across the board on the basis of a break even position. Council and NHS officers have also been considering a cost recovery plan and cost containment actions for ASC. Addressing and reducing the forecast overspend are a priority but there is risk that plans and actions do not meet the required level and/or do not deliver at the pace required. There is no flexibility within the NHS position to absorb with overspend and is projecting a £41m overspend for health overall (excluding the Adult Social Care position). Previous advice is to the effect that the the worst case position that Scottish Government will accept is an overspend of £40m. Positive discussions in relation to the need for a cost containment plan are underway at Chief Executive and Senior Officer level.

7.3 Mitigating action in terms of the delivery of adult social care requires close partnership working with NHS. That is ongoing and is reported to both the Joint Monitoring Committee and is also a key part of the Council's Delivery Plan in terms of the programme of work associated with the Person Centred Solutions Portfolio. That is reported upon as part of a separate report to this Committee.

It should also be noted that going forward the work to consider the lead agency model is likely to be critical in terms of increased control in relation to the financial position for adult social care.

## 8. Savings Delivery

- 8.1 Details in relation to required savings are set out in **Appendix 4**.
- 8.2 Members will note that the position is challenging and albeit the Delivery Plan provides for the delivery of £0.7m by way of Family First work the challenge is more significant than that largely as a result of previously undelivered savings. That position is referenced in the recovery plan and will be monitored in terms of future budget monitoring reports to Committee. In terms of the required savings there are 3 “ragged” as green and 2 currently “ragged” as red. It should also be recognised that the Delivery Plan Report is backward looking, considering Quarter 2, whereas this report is looking ahead to the end of the financial year.
- 8.3 Targets showing red are significant and relate to Adult Social Care. They amount to £7m in terms of the savings required of NHSH. There are ongoing conversations with NHSH in terms of their cost containment plans. These are being pursued at high level and involve the respective Chief Financial Officers of both agencies.

Designation: Assistant Chief Executive - People

Date: 10 January 2025

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Background Papers: N/A

Appendices: Appendix 1 – Budget Monitoring Statements  
Appendix 2 - NHS Adult Social Care Month 8 Statement  
Appendix 3 – Numbers of children and young people  
accommodated by the Council  
Appendix 4 – Savings Delivery

## HEALTH, WELLBEING AND SOCIAL CARE MONITORING STATEMENT 2025-26

## APPENDIX 1a

31/12/25	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Estimate	£'000 Year End Variance	Q2 Year End Variance	Q2 Movement	Q2 Annual Budget	Q2 Movement
<b>BY ACTIVITY</b>								
<b>Service Management and Support</b>								
Management Team	1,021	3,142	3,138	(3)	(3)	(0)	987	2,154
Business Support	1,082	1,689	1,471	(219)	(242)	23	1,656	33
<b>Adult Services</b>								
Delegated Adult Social Care	93,555	147,585	147,585	0	0	0	147,585	0
Mental Health Teams	1,290	1,893	1,842	(51)	(50)	(1)	1,770	124
Criminal Justice Service	(659)	62	62	(0)	0	(0)	0	62
Other Services for Vulnerable Adults	2,003	2,139	2,157	18	23	(5)	1,188	951
<b>Children's Services</b>								
Looked After Children	22,245	26,060	31,457	5,397	3,572	1,825	26,324	(264)
Family Teams	16,304	21,735	21,397	(338)	1,015	(1,353)	20,917	818
Other Services for Children	9,760	13,813	12,828	(984)	(888)	(96)	12,806	1,007
Delegated Child Health	5,949	(11,562)	(11,562)	0	0	0	(11,562)	0
<b>Grand Total Health, Wellbeing and Social Care</b>	<b>152,551</b>	<b>206,556</b>	<b>210,376</b>	<b>3,819</b>	<b>3,427</b>	<b>392</b>	<b>201,671</b>	<b>4,885</b>
<b>BY SUBJECTIVE</b>								
Staff Costs	35,744	50,924	47,976	(2,948)	(2,096)	(852)		
Other Expenditure	119,060	176,318	183,917	7,599	5,517	2,082		
<b>Gross Expenditure</b>	<b>154,804</b>	<b>227,242</b>	<b>231,893</b>	<b>4,651</b>	<b>3,421</b>	<b>1,230</b>		
Grant Income	(2,219)	(20,652)	(21,372)	(720)	11	(731)		
Other Income	(35)	(33)	(145)	(112)	(5)	(107)		
<b>Total Income</b>	<b>(2,254)</b>	<b>(20,685)</b>	<b>(21,517)</b>	<b>(832)</b>	<b>6</b>	<b>(838)</b>		
<b>NET TOTAL</b>	<b>152,551</b>	<b>206,556</b>	<b>210,376</b>	<b>3,819</b>	<b>4,118</b>	<b>392</b>		



Appendix 2

**MONTH 8 2025/2026 – NOVEMBER 2025**



Current Plan £m	Detail	Plan to Date £m	Actual to Date £m	Variance to Date £m	Forecast Outturn £m	Forecast Variance £m	Locum/ Agency & Bank Spend	In Month £'000	YTD £'000
	<b>HHSCP</b>								
297.255	NH Communities	197.527	207.600	(10.073)	311.127	(13.872)	Locum	488	3,294
62.258	Mental Health Services	41.485	42.430	(0.945)	63.400	(1.142)	Agency (Nursing)	307	1,743
169.355	Primary Care	113.602	114.411	(0.809)	170.700	(1.345)	Bank	961	7,263
(24.110)	ASC Other includes ASC Income	(16.100)	(4.385)	(11.715)	(15.925)	(8.184)	Agency (Non Med)	200	1,855
<b>504.758</b>	<b>Total HHSCP</b>	<b>336.514</b>	<b>360.056</b>	<b>(23.542)</b>	<b>529.302</b>	<b>(24.544)</b>	<b>Total</b>	<b>1,956</b>	<b>14,155</b>
	<b>HHSCP</b>								
322.309	Health	214.709	218.413	(3.705)	325.725	(3.416)			
182.450	Social Care	121.805	141.643	(19.837)	203.577	(21.127)			
<b>504.758</b>	<b>Total HHSCP</b>	<b>336.514</b>	<b>360.056</b>	<b>(23.542)</b>	<b>529.302</b>	<b>(24.544)</b>			

**HHSCP**

- YTD overspend of £23.542m reported with this forecast to increase to £24.544m by the end of the financial year
- ASC overspend forecast at £21.127m – this assumes delivery of V&E cost reductions/ improvements in full
- Drugs/ prescribing pressure forecast at £0.249m
- Locum costs of £1.001m contributing to overspend within Primary Care
- Supplementary staffing costs of £14.155m incurred to date
- High cost out of area placements continue to impact on the Mental Health position
- There has been a slight deterioration in the health forecast due to additional cost of locums being factored in.
- The Social Care position has deteriorated by £0.369m due to an increase in the bad debt provision and increasing supplementary staffing costs in Board managed care homes

### Appendix 3

The below Table summarises the movement in Placements and forecast between quarter2 and quarter3.

Placements	Qtr2 Forecast		Qtr3 Forecast		Change	
	No.	£M	No.	£M	No.	£M
Highland	22	5.559	20	5.272	-2	-0.287
Out of Authority	17	5.262	24	6.694	7	1.432
	39	10.821	44	11.966	5	1.145
Discharged	9	0.590	9	0.684	0	0.094
	48	11.411	53	12.650	5	1.239

## Appendix 4

### 2025/2026 Savings

<b>Savings Achieved</b>	<b>RAG Status</b>
0.127m Procurement	Red - Budgets have been reduced accordingly. Expected shortfall of between 0.036m and 0.073m.
0.200m Family First	Red - 0.500m pressure for 2025/2026 reflected in LAC budget to be addressed via medium term budget recovery actions
0.166m 1% Efficiency Target	On target - Allocated to budget lines & incorporated in outturn position
0.050m Justice	On target - Budget reduced accordingly