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Agenda Item: 8.

## **Integration Joint Board**

**Date of Meeting: 22 April 2026.**

**Subject: Financial Recovery Plan and Budget for 2026/27.**

### **1. Purpose**

1.1. To present the Financial Recovery Plan and subsequent 2026/27 funding allocation, for Members' approval.

### **2. Recommendations**

The Integration Joint Board is invited to note:

2.1. That the month 9 (December 2025) forecast outturn spend for 2025/26 on commissioned services is £69.646m, comprising the following:

- £35.03m in NHS Orkney (NHSO).
- £34.614m in Orkney Islands Council (OIC).

2.2. That the overspend for 2025/26 is forecast at £2.006m, comprising the following:

- NHSO commissioned services – £1.19m underspend, net of removing the £2.4m historical savings target.
- NHSO Set Aside (non-commissioned) services (£11.187m) at breakeven.
- OIC commissioned services – £3.2m overspend.

2.3. That it has been agreed with NHSO to remove the £2.4m historical savings target for 2026/27 NHSO commissioned services.

2.4. That, within services commissioned to NHSO, savings of 1.7% of budget (£570k) for 2026/27, in respect of Cash Releasing Efficiency Savings (CRES) have been tasked for affirmative action by the IJB.

2.5. That, in addition, OIC commissioned services have also been tasked with taking affirmative action to return to operating within the approved revenue budget, with a financial recovery plan savings target of £2.486m.

### **It is recommended:**

2.6. That the Financial Recovery Plan, attached as Appendix 1 to this report, be approved.

2.7. That, once the Financial Recovery Plan is approved, regular progress against the actions is considered as part of the Revenue Expenditure Monitoring Reports.

2.8. That, pending approval of the Financial Recovery Plan, the baseline budget for financial year 2026/27, amounting to £82.141m, as detailed in Annexes 2 to 5 of this report, be approved, noting that the increases are in line with Scottish Government requirements as explained in sections 5.1 and 5.2 of this report.

2.9. That work must be undertaken with both partners to deliver savings in order to achieve the required balanced outturn position in 2026/27.

## **3. Background**

3.1. The Orkney Integration Joint Board (IJB) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

3.2. To meet this responsibility, the IJB has established governance arrangements, which include a system of internal control. The system is intended to manage risk to support the achievement of the IJB's policies, aims and objectives. Reliance is also placed on NHSO and OIC's systems of internal control that support compliance with both organisations' policies and promote achievement of each organisation's aims and objectives, as well as those of the IJB.

3.3. Further information on this is provided within the governance statement found in the [annual accounts](#).

3.4. The IJB is responsible for the planning and delivery of integrated health and social care services in Orkney. It operates in partnership with NHSO and OIC and is legally required to set a balanced budget each year.

3.5. Within the Integration Scheme it states that budgets shall be based on recurring baseline budgets plus anticipated non-recurring funding for which there is a degree of certainty for each of the functions delegated to the IJB and shall take account of any applicable inflationary uplift, planned efficiency savings and financial strategy assumptions.

3.6. Inpatient hospital services/budgets provided within The Balfour and capacity in the designated specialties used in hospitals located in other Health Boards will form the set-aside portion of the hospital budget.

3.7. The funding available to the IJB shall be dependent on the funding available to NHSO and OIC and the corporate priorities of both.

3.8. The IJB receives a formal revenue expenditure monitoring report on a quarterly basis.

3.9. On 2 July 2025, the Board approved the Medium-Term Financial Plan 2025 – 2028 which highlights a range of pressures including:

- Rising Demand: Ageing population and increasing complexity of care needs.
- Workforce Pressures: Recruitment challenges and high agency reliance.
- Inflationary Costs: Impacting supplies, contracts, and staffing.
- Funding Uncertainty: Dependence on Scottish Government allocations and partner contributions based on prior year budgets with uplifts and approved service pressures.
- Service Delivery Challenges: Geographic isolation and rurality increase costs and limit economies of scale.

3.10. The “most likely” scenario outlined in the Medium-Term Financial Plan forecasts an £11.3 million shortfall over the three-year period. The Financial Recovery Plan is a direct response to that challenge and is intended to be reviewed and updated annually ahead of the start of each financial year.

3.11. Any potential deviation from a breakeven position should be reported to the Board, NHSO and OIC at the earliest opportunity.

## **4. Financial Recovery Plan**

4.1. The Financial Recovery Plan provides a roadmap for restoring financial sustainability while maintaining service quality. It reflects the IJB’s commitment to transformation, transparency and partnership working. With disciplined implementation and strong leadership, the Board can meet its financial challenges and deliver better outcomes for the people of Orkney.

4.2. The current forecast of the net overspend in 2025/26 is £2.006m, excluding the £2.4m NHS Orkney savings target. The proposed Financial Recovery Plan, attached at Appendix 1 to this report, for next year stands at £3.343m, thus there is sufficient headroom to achieve a balanced outturn position in 2026/27 – providing the assumptions and estimates materialise and no unforeseen pressures arise in-year.

4.3. The Financial Recovery Plan includes £3.343 million of savings, which is below the budget overspend position for 2025/26 (and expected overspend for 2026/27), and therefore requires further mitigations in-year to achieve balance.

4.4. The Financial Recovery Plan includes some visibility on financial pressures.

## **5. Current Position**

5.1. The Scottish Government has not provided detailed spending plans beyond 2026/27. Although there has been continued requests from local government on multi-year settlements this has not been forthcoming which inhibits medium and long term financial planning in a local context.

5.2. The IJB holds a financial reserve all of which is earmarked for the Integration Support, Primary Care Improvement Fund, Mental Health and the Alcohol and Drugs Partnership. There are no general fund reserves to draw on.

## **6. Budget Proposals 2026/27**

### **6.1. NHS Orkney**

6.1.1. On 13 January 2026, the Scottish Government wrote to NHS Boards, setting out the draft budget for 2026/27. The correspondence is attached at Annex 1.

6.1.2. The key funding messages outlined in the letter include the following:

- NHS Boards will receive a 2% uplift on baseline funding in 2026/27. Additional funding is also being added to the baseline to cover any expected costs from the public sector pay deals above the 2% uplift. The uplift only allows for a 2% uplift on non-pay to support inflationary pressures.
- Funding of £32.8 million has been issued to Boards across Scotland to help close the gap from NRAC parity – this ensures no Board is further than 0.6% from NRAC parity.
- £150 million of funding has been included to support continued implementation of the reforms committed to as part of the 2023/24 Agenda for Change pay deal.
- Non-recurring funding of £100 million will be provided for the Scottish Government's Operational Improvement Plan (OIP) in 2026/27 for renewed focus on reforming the services to work towards prevention and delivering improved access to treatment through digital innovation. This replaces the £100m in 2025/26 for OIP rather than being additional.

6.1.3. The indicative budget from NHSO is based on a 2% uplift on the recurring budget excluding the Non-Cash Limited anticipated budget for payments made to community pharmacists and dentists. Further information can be found at Annex 2.

6.1.4. Non-Cash Limited (£1.673 million) is an indicative figure based on the 2025/26 allocation and will be adjusted based on requirements and Scottish Government allocations in 2026/27.

6.1.5. The budgets indicated are what is included within the NHSO Financial Plans for 2026/27 for the IJB.

6.1.6. There is a holding account/reserves account which, as at 30 January 2026, had a balance of £2.295m. This is mainly earmarked reserves for the Primary Care Improvement Fund, Mental Health Recovery and Renewal, and Alcohol and Drugs Partnership. The carry-forward figures will be included within the Annual Accounts and the quarterly Revenue Expenditure Monitoring Reports.

6.1.7. There will continue to be additional funding received from the Scottish Government to meet various commitments to social and integration needs. Any additional funding allocations will be transferred once known.

6.1.8. There is always uncertainty regarding allocations because financial planning arrangements with Scottish Government are still ongoing nationally.

## 6.2. Orkney Islands Council

6.2.1. OIC presented proposals for the Budget and Council Tax level for 2026/27 to the Policy and Resources Committee on 3 March 2026, which were subsequently approved by the Council on 10 March 2026.

6.2.2. The Council's budget uprating assumptions are as follows:

Budget Element.	2026/27.
Staff Costs Non-Teaching.	3.50%
Property Costs (specifically energy costs).	2.00%
Supplies and Services	2.00%
Transport Costs.	2.00%
Administration Costs	2.00%
Third Party Payments	2.00%
Transfer Payments	2.00%
Third Sector	2.00%
Other Costs	2.00%
Sales.	3.80%
Fees and Charges.	3.80%
Other Income.	3.80%

6.2.3. The Scottish Government published its draft budget for 2026/27 on 13 January 2026. Once again, the settlement provides figures for a single year only.

6.2.4. Additional funding of £167 million to Local Government to support social care and integration for 2026/27 includes funding towards the uplift for pay for adult social care workers to the Real Living Wage of £13.45 per hour, from £12.60 per hour (£160 million), and an inflationary uplift on Free Personal Nursing Care rates (£7 million). The IJB share of the £160m is included in the 2026/27 settlement at Annex 4 (£714k). £7 million for Free Personal Nursing Care is undistributed as yet.

6.2.5. £879k service pressure in respect of Outwith Orkney Placements within Children's Services has been approved, and included in the baseline, in the OIC settlement. £1.156m of service pressures approved last year have now been removed this year.

6.2.6. Scottish Government's resource spending is £480 million below forecast due to weaker income tax receipts, limiting public service funding.

6.2.7. Capital budget reduced by £860 million, impacting infrastructure projects across transport, housing, and energy transition.

6.2.8. The Local Government settlement saw a real terms increase of £419 million (+2.9%) compared to last year.

6.2.9. Across Scotland, Councils are forecasting a £528m budget gap for 2026/27 excluding Health and Social Care Partnerships - which alone face an ongoing shortfall of around £497m from 2025/26.

6.2.10. In Scotland, there has been a 28% increase in the number of people waiting on a social care assessment for a package of care between January 2025 and January 2026. 3,374 people are waiting on a care at home package, a 7% increase from January 2025.

6.2.11. Increasing demand, an ageing population and the rising complexity of care whilst budgets are reduced threaten the sustainability of social care.

6.2.12. Based on the month 9 forecast outturn for 2025/26, OIC commissioned services are showing an overspend position of £3.20 million. The main cause for the overspend is the ongoing use of agency and locum staff – the total forecast overspend on the staffing budget of circa £26 million is £3.0 million. The overall cost of agency staff across the social work and social care workforce is forecast at £6.0 million, with roughly half of this cost offset by vacancies.

6.2.13. OIC commissioned services' forecasted budget gap for 2026/27 would be at least that forecast in 2025/26 (circa £3.2 million) if corrective action does not occur as proposed in the Financial Recovery Plan.

## 7. Contribution to quality

Please indicate which of the Orkney Community Plan 2025 to 2030 values are supported in this report adding Yes or No to the relevant area(s):

<b>Resilience:</b> To support and promote our strong communities.	Yes.
<b>Enterprise:</b> To tackle crosscutting issues such as digital connectivity, transport, housing and fuel poverty.	Yes.
<b>Equality:</b> To encourage services to provide equal opportunities for everyone.	Yes.
<b>Fairness:</b> To make sure socio-economic and social factors are balanced.	Yes.
<b>Innovation:</b> To overcome issues more effectively through partnership working.	Yes.
<b>Leadership:</b> To involve partners such as community councils, community groups, voluntary groups and individuals in the process.	No.
<b>Sustainability:</b> To make sure economic and environmental factors are balanced.	No.

## 8. Resource and financial implications

8.1. The proposed savings for 2026/27 are apportioned between NHS Orkney and Orkney Islands Council at £0.570 million and £2.486 million, respectively.

8.2. The proposed budgets for 2026/27 are detailed at Annexes 2 to 5, summarised as follows:

<b>Partner</b>	<b>Budget £000s</b>
NHS Orkney	36,970
NHS Orkney Set Aside	11,411
Orkney Islands Council	33,760
<b>IJB Baseline Budget 2025/26</b>	<b>82,141</b>

8.3. As new allocations become known to Orkney all resources received that relate to the delegated functions will be passed to the IJB as an additional allocation.

## 9. Risk, equality and climate change implications

9.1. Over the next few years, the IJB will require to balance its ambitious commissioning decisions to support change, alongside decommissioning decisions that enables NHSO and OIC to deliver year on year efficiencies to sustain priority services.

9.2. The main “business as usual” significant risk is that there could be a failure to deliver the outcomes of the Strategic Plan in relation to the financial resources that are available.

9.3. Failure to breakeven within the financial year will mean that the IJB will remain dependent upon additional payments from both NHSO and OIC, and this represents a material risk for the Board.

9.4. Implementing the Financial Recovery Plan will be an ongoing and iterative process, with a number of inherent uncertainties and associated risks. It is proposed that progress updates will be included within the Revenue Expenditure Monitoring Reports.

9.5. The public should be excluded from the meeting in respect of any discussion relating to Appendix 1. Appendix 1 contains exempt information as defined in paragraphs 3, 6 and 9 of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973.

## 10. Direction required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.

## 11. Escalation required

Please indicate if this report requires escalated to:

NHS Orkney.	No.
Orkney Islands Council.	No.

## 12. Author and contact information

12.1. Mohammed Sohail (Chief Finance Officer), Integration Joint Board. Email: [mohammed.sohail@orkney.gov.uk](mailto:mohammed.sohail@orkney.gov.uk), telephone: 01856 873535 extension 2601.

## 13. Supporting documents

13.1. Appendix 1: Financial Recovery Plan.

13.2. Annex 1: Indicative Allocation letter.

13.3. Annex 2: NHS Orkney's Budget 2026/27.

13.4. Annex 3: NHS Orkney Set Aside Budget 2026/27.

13.5. Annex 4: Orkney Islands Council's Budget 2026/27.

13.6. Annex 5: IJB Commissioned Services Budget by Services 2026/27.

## Annex 2: NHS Orkney's Budget 2026/27

	£000's	£000's
<b>Service Budget 2025/26 as at Period 12</b>	<b>34,605</b>	
2% Uplift (on service budgets and recurring budget)	<u>692</u>	
Recurring Baseline Budget		35,297
Non-Cash Limited		<u>1,673</u>
<b>Budget 2026/27</b>		<b><u><u>36,970</u></u></b>

### **Annex 3: NHS Orkney Set Aside Budget 2026/27**

	<b>£000's</b>	<b>£000's</b>
<b>Opening Baseline Budget M12 2025/26</b>		<b>11,187</b>
2% Uplift (on service budgets and recurring budget)		<u>224</u>
<b>Baseline Budget 2026/27</b>		<u><b>11,411</b></u>

## Annex 4: Orkney Islands Council's Budget 2026/27

	£000's	£000's
<b>Baseline Budget 2026/27</b>		<b>31,414</b>
<u>Reduce One-off Funding:</u>		
Braeburn Children's Residential	(473)	
Adult Outwith Orkney Placements	(246)	
Children Outwith Orkney Placements	(437)	
Sub Total One-off Funding		(1,156)
<u>Baseline Increases:</u>		
Pay and Uplifts	1,789	
Children Outwith Orkney Placements	879	
Sub Total Baseline Increases		2,668
Revised Baseline		32,926
<u>Finance Settlement:</u>		
Children Services Uplift	120	
Health and Social Care Uplift	714	
Sub Total Finance Settlement		834
<b>Draft Budget 2026/27</b>		<b><u>33,760</u></b>

## Annex 5: IJB Commissioned Services Budget by Services 2026/27

	<b>2026/27 Budget £000's</b>
<b>IJB Commissioned Services</b>	
Support Services and Overheads	5,243
Alcohol and Drugs Partnership	586
Children and Families	7,842
Prescribing	6,071
Elderly	11,134
Integration Funding	1,830
Disability	7,096
Mental Health	2,544
Other Community Care	1,879
Occupational Therapy	1,095
Care at Home	5,274
Criminal Justice	200
Community Nursing	2,280
Primary Care	15,214
Allied Health Professions	1,416
Rehabilitation	337
Reserves	508
Savings	-
<b>Service Totals</b>	<b>70,730</b>
Set Aside	11,411
<b>IJB Total</b>	<b>82,141</b>