

NHS Highland



Meeting: NHS Highland Board Meeting
Meeting date: 26 May 2026
Title: 2026/27 Budget update
Responsible Executive/Non-Executive: Heledd Cooper, Director of Finance
Report Author: Heledd Cooper, Director of Finance

Report Recommendation:

The Board 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			

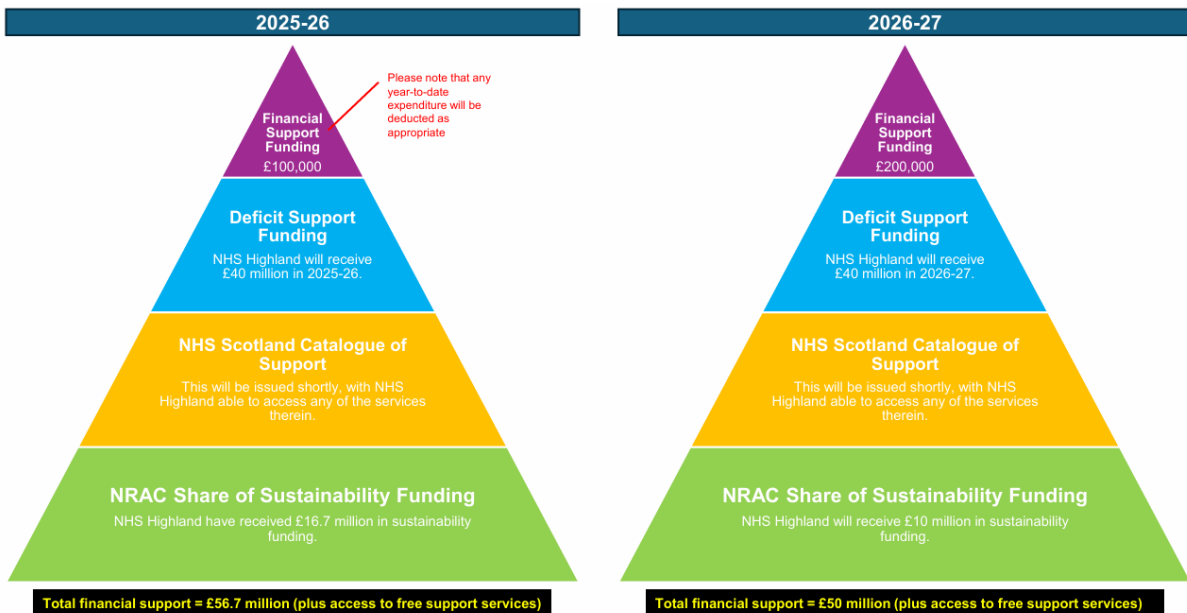
2 Report summary

2.1 Situation

NHS Highland is required to agree a budget for 2026/27 based on projected expenditure, inflationary and growth pressures, and confirmed funding. A three-year financial plan (2026/27–2028/29) was submitted to Scottish Government on 16 March 2026, and the key elements are summarised below

As part of the Support and Intervention Framework – Financial Considerations 2025-26 the NHS Highland Pyramid of Support which was received from Scottish Government in September 2025 confirmed the financial support provided to NHS Highland in 2025-26 and 2026-27 which confirms £40 million of Deficit Support Funding for 2026/27 (Figure 1).

Figure 1:1 – NHS Highland Pyramid of Support



This report is to provide the Board with a 3-year financial plan 2026/2 to 2028/29 for approval and sets out the proposed budget for 2026/27 in relation to the Deficit Support Funding. The previous repayable brokerage received of £106.5 million remains static.

2.2 Background

On 13 January 2026 all Boards received a Scottish Government Budget 2026/27 letter providing details of the indicative funding settlement for NHS Boards.

The key messages for the health and social care portfolio were as follows:

- Budget aligns to Operational Improvement Plan, Service Renewal Framework and Population Health Framework
- 2% uplift on baseline funding in 2026/27 (3% uplift in 2025/2026)
- To meet expected costs of 2026/27 pay awards in line with public sector pay policy
- Recurring funding for impact of 2025/2026 pay awards has been built into baseline
- Additional £32.8m provided to ensure no Board is further than 0.6% from NRAC parity; NHS Highland will not receive additional funding in 2026/27
- Further £150m of funding to support continued implementation of the 2023/2024 Agenda for Change pay deal (£300m now built into budgets for territorial boards)
- No brokerage will be available to support overspends
- Non-recurring sustainability funding of £150m (was £250m in 2025/2026) made available on an NRAC basis – to be used to reduce pressures and the reported deficit
- Boards at stage 2 and above on the Support & Intervention Framework for finance will receive additional support as notified in September 2025 (£40m for NHS Highland)
- Overspends in excess of available funding will be reflected in Annual Accounts
- Focus on refreshed 15 box grid to continue – sets out areas of focus to support delivery of 3% recurring savings.
- In addition to the baseline uplift, funding aligned to policy commitments will be allocated to Boards in 2026/2027
- £167m transferred to Local Government to support commitment to:
 - Real Living Wage
 - Free Personal Nursing Care rates
- There is also additional investment to support improvements to wider terms and conditions for Adult Social Care workers and support for advocacy within social care as well as investment to support a digital telecare pilot as part of commitment to remove non-residential charges.

2.3 Assessment

Finance plan submission:

NHS Highland submitted the final 3-year finance plan on the 16th March which detailed the funding assumptions, growth, national programmes and cost reduction options for 2026/27.

The Finance, Resource and Performance 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 2028/29 as submitted in March. Years 2 &3 are indicative currently. Further information on Funding and Expenditure is included in Appendix 1 and 2.

Table 1 – 3-year financial projections

	2026/2027		2027/2028		2028/2029	
	NHS Highland		NHS Highland		NHS Highland	
	Rec £m	Non-Rec £m	Rec £m	Non-Rec £m	Rec £m	Non-Rec £m
Total Funding Uplifts	51,038	36,701	26,830	16,688	27,366	16,688
Total Additional Costs	104,645	2,962	44,183	7,509	45,384	6,989
In Year Gap	(53,607)	33,739	(17,353)	9,179	(18,018)	9,699
Deficit B/F	(91,399)	(1,910)	(107,155)	(313)	(85,879)	-
Total Gap	(145,006)	31,829	(124,508)	8,866	(103,897)	9,699
Cost Reduction Target		(113,177)		(115,643)		(94,198)

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 2026/27.

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 in line with Scottish Government requirements. A series of workstreams were identified in 2025/26 which have been refreshed for 26/27 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). Savings targets are set out in Appendix 3, including an unidentified element of £15.456m.

Financial flexibility:

There is a level of non-recurrent benefit each year, arising from slippage against allocations or balance sheet movements. While non-recurring by nature, these can be estimated using historic trends and have been reflected in 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.

The estimated gap between costs and available funding is £27.922m. Additional funding of £8.671m as pass through from Scottish Government has been included, confirmation of recurrent funding of £1.66m towards the cost of NI increase in 2025/26 and a contribution to pay award of £1.95m. This is offset by a quantum reduction of 2.721m as savings expectations and £0.5m reduction to redistribute Carers Funding. The Highland Council has confirmed an increase to eth Transformation Fund of £7m. Detail of Income and Expenditure for ASC is included in Appendix 4.

To reduce this gap, an internal savings target of 3% (£6.581m) has been applied and will be progressed through the ASC savings plan with an initial focus on cost containment and control.

Argyll & Bute HSCP:

The Argyll & Bute 2026/27 budget was presented at the March Integrated Joint Board meeting. The report set out an opening budget gap of £10,819m.

The cost reduction/ improvement plan has currently identified £5.076m to be offset by utilisation of reserves of £5,076m and £5,743m proposed savings.

The Board's financial plan assumes that the Argyll & Bute IJB will deliver a balanced position, whilst it is currently projecting a deficit within the ASC position above the deficit support funding available.

Table 2 – summary of position after cost reduction targets

	£m	£m
Financial Gap		(113.177)
Cost Reductions/Improvements Programmes		
Value & Efficiency - 3% of Baseline	30.601	
ASC - 3%	6.581	
Additional Acute Target	1.938	
One off actions		
Allocations Slippage	1.500	
Financial Flexibility	5.600	
Opportunities		46.220
Position before Deficit Support Funding		(66.957)
Deficit Support Funding		40.000
Gap to In Year Financial Balance		(26.957)
Uncontrollable/ Unexpected items		
Impact of NHS GG&C SLA uplift		16.124
Impact of ASC pressure		21.341
		10.508

Financial Risks

There are a number of risks which may impact on our ability to deliver against the financial plan. The major risks are outlined below:

- The financial plan includes an increase to the NHS GG&C SLA. The detail of the increase is yet to be agreed with the Board and there is a risk that other areas will be included in future and other Boards may adopt a similar approach
- The financial plan assumes a high level of savings, with significant recurring savings delivered across the system in the past two financial years. Robust plans are being developed to support the delivery of savings in 2026/27 which will mitigate this risk.
- The financial plan assumes current funding levels for staffing agreed to support the Moray maternity business case with continue.
- The financial plan assumes the £20 million of funding provided by Scottish Government will be sufficient to cover the cost of the 2023/24 Agenda for Change reforms with the assumption that any residual cost of implementation will be fully funded.
- The plan assumes recurring costs associated with the Unscheduled Care and Planned Care operational improvement plans are fully funded by Scottish Government. There is no provision in the financial plan to improve

performance beyond that included in the Scottish Government funded
Unscheduled Care and Planned Care improvement plans.

These risks will be closely monitored and managed as we move through the
2026/27 financial year with updates on the risks and mitigations in place
included within monthly reporting.

Sub National Planning

NHS Highland is engaged in sub-national planning and is a member of the
finance sub-group in addition to other delivery groups.

No specific financial actions have been identified at this time, but areas of focus
have been agreed.

Final Assessment and proposal

A financial plan was submitted to Scottish Government with a planned deficit of
£66.957m which has been approved by Scottish Government subject to three
conditions which are:

- “1. NHS Highland must continue to work with their Local Authority partners
to understand and mitigate pressure in adult social care to ensure all
partners are supporting this challenge and looking at medium to long
term changes.
- 2. Ongoing work with NHS Greater Glasgow and Clyde to optimise cross
boundary flow and understand service delivery options across Scotland
West.
- 3. Continue to aim to deliver further savings and one off measures to reduce
the deficit within the £40 million deficit support funding.”

The proposal is for the Board to agree the plan as set out in Table 2 and to
continue working with Scottish Government, partners and sub-national
structures to reduce the deficit in-year.

2.4 Proposed level of Assurance

Substantial	<input type="checkbox"/>	Moderate	<input type="checkbox"/>
Limited	<input checked="" type="checkbox"/>	None	<input type="checkbox"/>

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. Some assurance can be taken from the robust approach to identifying
pressures and mitigations; however, overall assurance remains limited given the
scale and risk profile of the savings required.

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 take further actions 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 2026/27.

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 reduce the financial gap beyond the 3% V&E actions

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
- 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: Additional funding

Appendix 2: Additional costs

Appendix 3: List of identified areas and projected savings

Appendix 4: Adult Social Care summary

Appendix 1: Additional funding

Additional Funding	
	£m
Baseline uplift	19.609
NRAC adjustment	-
New Medicines	16.688
Other new allocations	39.961
Additional income	10.251
Additional Funding for AfC staff to 3.75%	1.230
	87.739

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

- No NRAC adjustment funding in 2026/2027 – NHS Highland is -0.6% from NRAC parity
- Baseline uplift, New Medicines funding allocated across A&B and North Highland on an NRAC basis
- Additional income reflects an estimate of SG funding passed through from Highland Council for national living wage and free personal nursing care
- New Medicines funding continues to be non-recurrent. Risk that this will reduce in future years

Appendix 2: Additional costs

Total Additional Costs	
	£m
Pay Uplift	25.282
Other Pay Pressures	3.533
Prescribing	14.077
Estates & Infrastructure	1.503
Digital	1.789
SLAs	5.541
National & Policy Decisions	20.824
Other Board Specific - Non Pay	35.059
	107.608

- Pay uplifts based on establishments
- Other uplifts in line with national assumptions

- Includes ASC uplifts
- Other pay pressures mainly relate to Resident Doctors – banding and additional cover
- Prescribing includes 5% uplift assumption for growth in price and volume within Acute (deviation from the National assumptions of 10%) setting and a 6% uplift within Primary Care
- The SLA additional costs reflect an assumed percentage uplift whilst the Greater Glasgow and Clyde pressure is within Other Board Specific – Non Pay
- National & Policy Decisions includes AfC reform and an increase in national top slices
- Other Board Specific – Non Pay includes the GG&C SLA uplift and specific ASC pressures

Appendix 3: List of identified areas and projected savings:

Scheme	Target £m
Data-Led Management	1.500
Meridian - Theatres	0.550
Nurse Agency Reduction	1.200
Bed Pressures	4.000
Reduction in locum use	2.000
Non Compliant Rota Review	0.500
Prescribing	4.000
Central Functions Job Family Review	1.500
SLA Income	0.500
Procurement	1.500
Leases/Property	
Digital	
Vaccinations	0.150
Other	15.456
	32.856

Several schemes have been identified with indicative values attached – work continues to further develop the programme for 2026/2027.

Appendix 4: Adult Social Care summary

Estimated Expenditure	203.577	Quantum	147.585 **	Emerging Gap	(27.922)
Income	(0.609)	Reduction to quantum per Yr3 of THC budget	(2.600)		
Inflation	8.435	Reduction to quantum - share of HC Digital Savings	(0.121)		
Pay	2.689	Reduction to quantum - redistribution of Carers Funding	(0.500)		
Non Pay	0.247				
Growth	4.172 *	NHS Highland/SG	34.233		
		Added to baseline CCHST	0.583		
		Funding 26/27 RLW	8.311		
		Funding 26/27 FPNC	0.360 ***		
	<u>218.510</u>	NI	1.660		
		Uplift - contribution to pay award	1.950		
MP Package	0.800				
Fairburn	0.300				
			<u>191.460</u>		
Support Payments	(0.603)				
Transition Rate Inc	0.375				
Care First replacement	-				
	<u>219.383</u>				

* Growth to be reviewed
 ** Starting quantum has reduced confirm with HC
 ***FNPC element to be confirmed