ARGYLL AND BUTE COUNCIL **POLICY AND RESOURCES COMMITTEE**

FINANCIAL SERVICES **20 AUGUST 2026**

BUDGET OUTLOOK 2027-28 TO 2031-32

1. EXECUTIVE SUMMARY

1.1 This report summarises the Budget Outlook for the five year period 2027-28 to 2031-32 and provides an update to the position previously reported to the Policy and Resources Committee in May 2026. It is underpinned by planning assumptions that will continue to be updated and refined, on an ongoing basis, throughout the year.

1.2 The Budget Outlook has been prepared using three different scenarios, best case, worst case and mid-range. The detailed information contained within the report focusses primarily on the mid-range scenario, however, all three scenarios are outlined within Appendix 1.

1.3 There are no changes to suggested planning assumptions in respect of Scottish Government funding since those reported as part of the Budget Pack on 25 February 2026, ranging between flat cash in the best case scenario, 0.5% reduction in the mid-range and a 1% reduction in the worst case scenario.

1.4 The Department of Environment, Food and Rural Affairs (DEFRA) funding in respect of Packaging Extended Producer Responsibility for 2026-27 has been confirmed at £2.851m. It remains uncertain as to whether this funding will be recurring at this level in 2027-28 and future years, and without a reduction in Scottish Government grant. At this stage, funding is assumed to continue into 2027-28 and future years at the 2026-27 level in the best case, at 50% of the 2026-27 level in the mid-range and £nil in the worst case scenarios. Funding conditions and future years budget pressures, in respect of potential new spending commitments, remain unclear.

1.5 There are no changes to previous assumptions in respect of Council Tax growth. The Council Tax base is assumed to grow by 0.25% in the worst case, 0.5% in the mid-range and 0.75% in the best case scenarios.

1.6 During the 2026-27 budget planning, a re-base of anticipated Council Tax income of £0.300m was included within the budget outlook. This was as a result of additional income in relation to the reclassification of self-catering units as domestic dwellings by the Assessor, following completion of both the 2022-23 and 2023-24 canvasses, which saw the transfer of properties from the Non-Domestic Rates to Council Tax registers. At this time, it was reported that there was a significant level of uncertainty in respect of the regulatory environment, with a risk of appeals being granted and properties returning to Non-Domestic Rates which presented a risk to the financial planning assumptions.

The subsequent review removed a significant proportion of this anticipated taxbase and required in-year adjustments to billing, including the reduction of liabilities and, in some cases, the issue of credits or refunds towards the end of the financial year. The removals were processed in stages with the most significant impact being 130 properties transferred from Council Tax back to NDR. The timing of these changes, late in the financial year, meant the impact could not be reported earlier.

The position will be monitored throughout 2026-27, however at this stage it would be prudent to reverse the £0.300m re-base previously applied.

1.7 There has been no change to the following employee costs assumptions since last reporting:

- For the SJC, Chief Officers and Elected Members pay award an increase of 3% for 2027-28 in both the best case and mid-range scenarios, with 5% assumed in the worst case scenario. For future years, the best case scenario has been reduced to 2%, while the mid-range remains at 3% and worst case remains at 5%.
- The Teachers pay award was settled at 4% from 1 August 2025, rising to 4.25% from 1 April 2026 with a further 3.25% from 1 August 2026 to 31 July 2027. From the 1 August 2027, the same pay award assumptions have been included for Teachers that are assumed for all staff, as noted in the previous bullet point.
- The cost of pay increments for 2026-27 is estimated at £0.599m. For future years, an equivalent cost has been assumed in the mid-range and worst case scenarios, while half the estimated 2026-27 cost has been assumed in the best case scenario.

1.8 For non-pay inflation, only unavoidable inflation has been provided for within each scenario, with the mid-range scenario based on current market forecast data, where available. A further general inflation contingency has been built into the mid-range and worst case scenarios.

This position continues to be monitored in light of significant volatility due to the ongoing conflict in Iran which could result in financial pressures. At this stage, given prevalent levels of uncertainty, this cannot be quantified therefore there are no changes to the inflationary assumptions included within the 2026-27 Budget Pack. This will be monitored closely throughout 2026-27 and updated when there is more certainty around the longer term impact. A more detailed report in relation to the potential impact of the Iran conflict is included as a separate agenda item.

1.9 There are a number of cost and demand pressures for council services built into each scenario, across all five years, comprising the following:

- ASN Support
- Education ICT Network Infrastructure
- Hostels
- Welfare Rights
- Election Costs
- Area Committee Meetings
- Universal Credit – HB Admin grant
- Civica Revenue and Benefits Management System
- Microsoft 365 Licenses
- Piers and Harbours
- Valuation Joint Board
- Wi-Fi Network Subscription

1.10 In addition to the identified cost and demand pressures, a general allowance for currently unforeseen or unquantifiable cost and demand pressures continues to be included in each scenario (best case £0.250m, mid-range £0.500m and worst case £1m per year).

1.11 Political decisions will require to be made in respect of the allocation to the Health and Social Care Partnership in future years, subject to Scottish Government grant funding and the council's overall financial position. As part of the 2026-27 budget process, indicative base allocations of £91.631m were agreed for 2027-28 and 2028-29. The current and forecast financial position of the HSCP represents a significant risk to the council.

1.12 The updated budget gap in the mid-range scenario, prior to measures to balance the budget, either from previous savings decisions or new potential options, is estimated at £17.101m in 2027-28 and £65.430m over the five year period 2027-28 to 2031-32.

1.13 The measures to balance the budget over the next five years are as follows:

- Proposed increases to fees and charges of between 3% and 9% each year (6% mid-range).
- Proposed increases to Council Tax at 5% each year across all scenarios.
- Management/Operational and Policy savings already agreed by Council in February 2026 and previous years.

1.14 The updated budget gap in the mid-range scenario, after measures to balance the budget, is estimated at £10.980m in 2027-28 and £38.294m over the five year period 2027-28 to 2031-32.

1.15 The updated budget gap in the best case scenario is estimated at £3.838m in 2027-28 and £10.449m over five years, increasing to £23.899m in 2027-28 and £81.752m over five years in the worst case scenario. A summary of all three scenarios is included within Appendix 1.

1.16 It is recommended that the Policy and Resources Committee consider the current Budget Outlook position for the period 2027-28 to 2031-32.

ARGYLL AND BUTE COUNCIL **POLICY AND RESOURCES COMMITTEE**

FINANCIAL SERVICES **20 AUGUST 2026**

BUDGET OUTLOOK 2027-28 TO 2031-32

2. INTRODUCTION

2.1 This report summarises the Budget Outlook for the five year period 2027-28 to 2031-32 and provides an update to the position previously reported to the Policy and Resources Committee in May 2026. It is underpinned by planning assumptions that will continue to be updated and refined, on an ongoing basis, throughout the year. It should be noted that relatively small variations in planning assumptions can lead to fairly significant changes to the budget forecast outcome.

2.2 The Budget Outlook has been prepared using three different scenarios, best case, worst case and mid-range. The detailed information contained within the report focusses primarily on the mid-range scenario, however, all three scenarios are outlined within Appendix 1.

3. RECOMMENDATIONS

3.1 It is recommended that the Policy and Resources Committee consider the current Budget Outlook position for the period 2027-28 to 2031-32.

4. DETAIL

4.1 Funding

Scottish Government Finance Settlement

4.1.1 Estimated future Scottish Government funding levels is one of the key assumptions under-pinning the Budget Outlook. Scottish Government had intended to provide multi-year settlements from 2026-27 following the publication of the Spending review. However, the published Spending Review provided forward projections at a less-detailed level than was necessary to provide certainty over the exact levels of support for Local Government in years 2 and 3. It was therefore not possible for the Scottish Government to provide a complete multi-year settlement for 2027-28 and 2028-29.

4.1.2 As part of the 2026-27 budget setting process, Members were advised that in considering the assumption related to future years funding, the Scottish Spending Review published alongside the Scottish Budget suggests limited real-terms growth, effectively a very tight or flat cash outlook for the Finance and Local Government portfolio. As a result of Argyll and Bute Council receiving benefit from the floor mechanism, it is recommended that we continue to assume a 0.5% reduction in Scottish Government funding in the mid-range scenario which reflects flat cash and the floor being set at 0.5% below the Scottish average. The best and worst case scenarios would be varied by 0.50% resulting in range of between 1% reduction (worst case) and flat cash (best case).

4.1.3 The table below summarises the mid-range scenario estimates based on a 0.5% settlement reduction year on year.

	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	2031-32 £000
Estimated SG Funding	272,036	270,677	269,324	267,977	266,637

Level Playing Field Support

4.1.4 Level Playing Field support for PPP projects was introduced many years ago to ensure that a local authority's choice between using a PPP model and conventional public procurement was not distorted simply by the difference in how loan costs are supported by the Scottish Government. Argyll and Bute Council receive Level Playing Field Support from the Scottish Government for the Waste PPP Contract that comes to an end during 2026. The Level Playing Field Support reduced in 2026-27 (part year) and there will be a further reduction of £0.430m in 2027-28 that is outwith the floor mechanism. The estimated Revenue Support Grant has been adjusted to account for this reduction in 2027-28 and beyond.

4.1.5 **Packaging Extended Producer Responsibility (pEPR) – Funding from DEFRA**

In 2026-27 funding available in respect of pEPR from the Department of Environment, Food and Rural Affairs (DEFRA) was confirmed at £2.851m. It remains uncertain as to whether this funding will be recurring at this level in 2027-28 and future years, and without a reduction in Scottish Government grant. Within the budget outlook, funding is assumed to continue into 2027-28 and future years at the 2026-27 level in the best case, at 50% of the 2026-27 level in the mid-range and £nil in the worst case scenarios. Funding conditions and future years budget pressures, in respect of potential new spending commitment remain unclear.

Council Tax

4.1.6 The Council Tax base for 2026-27 is set at £78.274m, which reflects the 9.7% increase agreed by the Council on 25 February 2026.

4.1.7 There are no changes to previous assumptions around the growth in Council Tax. It has been assumed that there will be 0.5% growth in the mid-range scenario for all years from 2027-28 (0.75% in the best and 0.25% in the worst case scenarios). Following the setting of Council Tax in February, the future years estimates have been updated reflecting the adjusted base Council Tax budget.

4.1.8 During the 2026-27 budget planning, a re-base of anticipated Council Tax income of £0.300m was included within the budget outlook. This was as a result of additional income in relation to the reclassification of self-catering units as domestic dwellings by the Assessor, following completion of both the 2022-23 and 2023-24 canvasses, which saw the transfer of properties from the Non-Domestic Rates to Council Tax registers. At this time, it was reported that there was a significant level of uncertainty in respect of the regulatory environment, with a risk of appeals being granted and properties returning to Non-Domestic Rates which presented a risk to the financial planning assumptions.

The subsequent review removed a significant proportion of this anticipated taxbase and required in-year adjustments to billing, including the reduction of liabilities and, in some cases, the issue of credits or refunds towards the end of the financial year. The removals were processed in stages with the most significant impact being 130 properties transferred from Council Tax back to NDR. The timing of these changes, late in the financial year, meant the impact could not be reported earlier.

The position will be monitored throughout 2026-27, however at this stage it would be prudent to reverse the £0.300m re-base previously applied.

4.1.9 In the first instance, this report presents the budget gap, prior to any measures to balance the budget. For this purpose, Council Tax is assumed to remain at the same levels as 2026-27, with only growth in the Council Tax base reflected.

Funding Summary

4.1.10 The following table summarises the estimated total funding in the mid-range scenario over the 5 years 2027-28 to 2031-32.

	2027-28 £000	**2028-29 £000**	**2029-30 £000**	**2030-31 £000**	**2031-32 £000**
SG Funding	272,036	270,677	269,324	267,977	266,637
pEPR – DEFRA Funding	1,426	1,426	1,426	1,426	1,426
Level Playing Field Support Funding	(430)	(430)	(430)	(430)	(430)
Council Tax Base	78,274	78,274	78,274	78,274	78,274
Reversal of Council Tax Re-base	(300)	(300)	(300)	(300)	(300)
Council Tax Growth	391	784	1,179	1,576	1,975
Total Estimated Funding	**351,397**	**350,431**	**349,473**	**348,523**	**347,582**

4.2 Base Budget

4.2.1 The 2026-27 budget approved by Council on 25 February 2026 was £362.029m. This included the 2026-27 debt charge implications of approved borrowing for additional capital investment. The full year effect of previous budget decisions on 2026-27 and future years are incorporated as base budget adjustments.

4.2.2 The revised base budget is unchanged from the previously reported position, as outlined in the table below.

	2027-28 £000	**2028-29 £000**	**2029-30 £000**	**2030-31 £000**	**2031-32 £000**
Base Budget 2026-27	362,029	362,029	362,029	362,029	362,029
Debt Charges Increase	357	357	357	357	357
Approved Policy Savings	(1,203)	(940)	(940)	(940)	(940)
Revised Base Budget	**361,183**	**361,446**	**361,446**	**361,446**	**361,446**

4.3 Employee Cost Changes

Pay Award

4.3.1 There has been no change to the following employee costs assumptions since last reporting:

- For the SJC, Chief Officers and Elected Members pay award an increase of 3% for 2027-28 in both the best case and mid-range scenarios, with 5% assumed in the worst case scenario. For future years, the best case scenario has been reduced to 2%, while the mid-range remains at 3% and worst case remains at 5%.
- The Teachers pay award was settled at 4% from 1 August 2025, rising to 4.25% from 1 April 2026 with a further 3.25% from 1 August 2026 to 31 July 2027. From the 1 August 2027, the same pay award assumptions have been included for Teachers that are assumed for all staff, as noted in the previous bullet point.

4.3.2 There is a risk that the ongoing conflict in Iran may impact the 2027/28 pay settlement negotiations should inflation continue to rise, negatively influencing the cost of living. While the exact level of potential pay increase is yet to be determined, it is estimated that each 1% uplift would result in an additional cost of approximately £2.2 million for 2027/28.

4.3.3 A further risk relates to the Real Living Wage (RLW), which may soon exceed the lowest point of the current pay and grading structure. Current estimates suggest this could occur as early as April 2027, depending on annual pay awards and the percentage increase applied to the RLW. This may require a full review of the pay and grading structure and is likely to have a financial impact. The HROD Service will review the position and provide further detail in due course.

Increments

4.3.4 There remains a fairly regular turnover of staff within posts and when this happens, the cost of increments can, in some cases, be absorbed within the existing budget provision, as leavers who may be at the top their grade may be replaced by new starts at the grade entry point. The cost of pay increments for 2026-27 continues to be estimated at £0.599m.

4.3.5 For future years, an equivalent cost has been assumed in the mid-range and worst case scenarios, while half the estimated 2026-27 cost has been assumed in the best case scenario.

Strathclyde Pension Fund (SPF)

4.3.6 As previously reported, the next formal actuarial valuation of the Strathclyde Pension Fund will be carried out as at 31 March 2026 and reported in 2027, which will reset contribution requirements for the subsequent 3-year period. It is anticipated that there should be a further recurring reduction in the rate, based on reported funding positions during 2025, however, this is not certain and will depend on the valuation as at 31 March 2026. In order to signpost that there is a likelihood of a reduction to the rate, the budget outlook assumes no change in the worst case scenario, a reduction to 15% in the mid-range scenario (£2.799m) and a reduction to 13% in the best case scenario (£5.039m). These estimates

will be updated throughout the year as more information becomes available.

Employee Costs Summary

4.3.7 The table below summarises the employee cost changes in the mid-range scenario, for council services, over the five years 2027-28 to 2031-32. Employee cost increases relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.3.

	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	2031-32 £000
Pay Award	4,915	10,448	16,281	22,289	28,478
Increments	599	1,198	1,797	2,396	2,995
SPF estimated reduction in rate	(2,799)	(2,799)	(2,799)	(2,799)	(2,799)
Total Employee Cost Changes	**2,715**	**8,847**	**15,279**	**21,886**	**28,674**

4.4 Non-pay Inflation

4.4.1 Non-pay inflation is only provided for within budget plans, where it is deemed to be unavoidable, for example in respect of contractual obligations. As not all budget elements are subject to inflationary increases, inflationary budget pressures may arise in some other areas and in order to manage spend within available budget resources, service rationalisation or efficiencies may require to be delivered.

4.4.2 Non-pay inflation continues to be monitored in light of significant volatility due to the ongoing conflict in Iran which could result in financial pressures. At this stage, given prevalent levels of uncertainty, this cannot be quantified therefore there are no changes to the inflationary assumptions included within the 2026-27 Budget Pack. This will continue to be closely monitored throughout 2026-27 and updated when there is more certainty around the longer term impact. A more detailed report in relation to the potential impact of the Iran conflict is included as a separate agenda item.

4.4.3 In addition, due to prevailing levels of economic uncertainty, it continues to be deemed prudent to include a further general inflation contingency within the mid-range and worst case scenarios at £250k and £500k each year respectively. This contingency will either be required, reduced or removed to reflect changing circumstances before the 2027-28 budget is set.

4.4.4 The estimated cumulative inflation over the five years 2026-27 to 2030-31 in the mid-range scenario is outlined in the table below.

	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	2031-32 £000
Non-Pay Inflation	3,412	7,007	10,837	14,917	19,167

4.4.5 An analysis of the 2027-28 cost estimate in respect of the mid-range scenario across key inflationary drivers is given in the table below. The non-pay inflationary increases relating to Social Work within the Health and Social Care Partnership are summarised within

paragraph 4.6.3.

Inflation Category	2027-28 Estimate £000
Premises and Utilities (Rates, Electricity, Gas, Oil, Water)	390
Waste/Landfill Tax	444
NPDO/HUB Schools	438
Other Contracted Services	805
Insurance	569
ICT	268
Other Supplies and Services	248
General Contingency	250
Total	**3,412**

4.5 Cost and Demand Pressures

4.5.1 For a number of years, services have been required to manage any cost and demand pressures within current budgetary resources, as far as possible. However, there are several cost and demand pressures, already identified for future years, which cannot be contained without a detrimental impact on service provision. These continue to be monitored on an ongoing basis and reported within the Budget Outlook.

4.5.2 Since last reporting to Policy and Resources Committee in May 2026, the cost and demand pressures have been updated to include pressures relating to Hostels, Welfare Rights, Piers and Harbours, and the Biodegradable Municipal Waste (BMW) ban.

4.5.3 When creating a longer-term budget outlook beyond the current year, there is a greater risk that currently unforeseen or unquantifiable cost and demand pressures will emerge across future years. It is, therefore, deemed prudent to continue to include a general contingency, proposed at £0.250m, within the best case, £0.500m within the mid-range and £1m within the worst case scenarios year on year. This contingency will either be required, reduced or removed to reflect changing circumstances before the 2027-28 budget is set.

4.5.4 The cost and demand pressures within the mid-range scenario are detailed in Appendix 2 and summarised in the table below. These will continue to be subject to ongoing review throughout the financial year.

	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	2031-32 £000
ASN Support	214	435	648	896	1,137
Education ICT Network Infrastructure	53	53	53	53	53
Hostels	82	82	82	82	82
Welfare Rights	40	40	40	40	40
Election costs	350	0	0	0	0
Area Committee	45	45	45	45	45

Meetings					
Universal Credit – HB Admin Grant	40	80	120	160	160
Civica Revenue and Benefits System	63	63	63	63	63
Microsoft 365 Licenses	350	350	350	350	350
Piers and Harbours	361	284	205	205	205
Valuation Joint Board Requisition	46	46	46	46	46
Wi-Fi Network Subscription License	44	44	44	44	44
Allowance for pressures in future years	500	1,000	1,500	2,000	2,500
Total Cost and Demand Pressures	**2,188**	**2,522**	**3,196**	**3,984**	**4,725**

4.5.5 In addition to the known pressures above, there are further potential pressures that are not able to be quantified at this stage as noted below.

Implementation of Reduced Class Contact Time (RCCT)

Both Local Government and the Scottish Government have agreed to make meaningful progress towards reducing class contact time for teachers, in recognition of the asks made by teachers and teaching unions.

Reduced class contact time (RCCT) reduces the hours teachers spend in direct class contact and increases time available for planning, preparation and assessment (PPA) and other agreed duties. The resulting teaching time shortfall typically requires additional staffing and/or timetable changes.

Discussions are continuing and therefore the financial impact remains unclear; as more information becomes available updates will be provided.

SEEMiS

SEEMiS is the current system used by all Scottish local authorities. It supports schools, ELC settings, and central education functions, and provides critical national data feeds. The introduction of the 1140-hour ELC entitlement, together with the requirement for full parental flexibility over how they use those hours, created complex delivery models and attendance patterns that the current Management Information System (MIS) cannot support.

All Scottish local authorities have agreed to procure a new national Education MIS.. Migration is expected by August 2028, presenting significant operational, financial, and data risks that require early planning and senior oversight. A national procurement is being led through a multi-agency working group (ADES, COSLA, Scotland Excel, Directors of Finance, Digital Leaders, Improvement Service).

There are some expected financial implications associated with this including system costs and project resource requirements, however at this stage they are unable to be quantified.

The Education Service will continue to engage with the Association of Directors of Education in Scotland (ADES) and the national working group to ensure local Argyll and Bute requirements/interests are represented.

4.5.6 The cost and demand pressures relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.3.

4.6 Health and Social Care Partnership

4.6.1 As part of the 2026-27 budget process, indicative base allocations of £91.631m were agreed for 2027-28 and 2028-29, with future years' allocations being subject to Scottish Government grant funding and the council's overall financial position. The indicative base allocation for 2027-28 represents a reduction of £1m, reflecting the non-recurring element of the additional £4.218m funding provided in 2026-27.

4.6.2 Political decisions will require to be made in respect of the allocation to the Health and Social Care Partnership (HSCP) in future years. For the purposes of the Budget Outlook, excluding the £1m adjustment noted above, flat cash allocations continue to be assumed across all scenarios. These are only indicative planning assumptions and it will be a matter for Council to consider any changes, as part of the budget process.

4.6.3 Social Work services have already identified a number of cost and demand pressures, included within Appendix 3, with the mid-range scenario summarised below. These are included for information purposes. It is expected that the HSCP will absorb their cost and demand pressures within their funding allocation. Note that these only extend to three years rather than the five years of the council's Budget Outlook.

	2027-28 £000	**2028-29 £000**	**2029-30 £000**
Pay Inflation	1,412	2,428	3,469
Pay Increments	158	316	474
Non-Pay Inflation	854	1,757	2,710
Adult Care - Older People	486	980	1,481
C&F - Looked After Children	81	164	249
Non-recurring funding provided by Council in 2026-27	1,000	1,000	1,000
General Contingency	200	400	600
Total Social Work Cost and Demand Pressures	**4,191**	**7,045**	**9,983**

4.6.4 There is a significant risk to the council in respect of failure to manage the delivery of Social Work services within available resources. Under the terms of the Integration Scheme, any overspend on Social Work services, which cannot be met from existing reserve balances, may fall to be met by the council. In order to safeguard the council's position, the financial position of the HSCP and related financial risk to the council will be closely monitored throughout the year. This will continue to form part of the regular reporting to Policy and Resources Committee in respect of the current year revenue budget monitoring and financial risks, as well as future iterations of this Budget Outlook report.

4.7 LiveArgyll

4.7.1 Political decisions will require to be made in respect of the allocation to LiveArgyll in future years. For the purposes of the Budget Outlook, flat cash allocations continue to be assumed across all scenarios, however it will be a matter for Council to consider any changes as part of the budget process next year.

4.8 Estimated Budget Gap PRIOR to Measures to Balance the Budget

4.8.1 The updated budget gap in the mid-range scenario over the five years 2027-28 to 2031-32, after allowing for the considerations outlined above and prior to measures to balance the budget, is outlined in the table below. This is the budget gap prior to factoring in any previous savings decisions or potential options towards balancing the budget.

	2027-28 £000	**2028-29 £000**	**2029-30 £000**	**2030-31 £000**	**2031-32 £000**
Base Budget	362,029	362,029	362,029	362,029	362,029
Base Budget Adjustments	(846)	(583)	(583)	(583)	(583)
Employee Cost Changes	2,715	8,847	15,279	21,886	28,674
Non-Pay Inflation	3,412	7,007	10,837	14,917	19,167
Cost and Demand Pressures	2,188	2,522	3,196	3,984	4,725
Adjustment to HSCP Payment	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Total Estimated Net Expenditure	**368,498**	**378,822**	**389,758**	**401,233**	**413,012**
Estimated Funding	351,397	350,431	349,473	348,523	347,582
Estimated Budget Surplus / (Gap) Cumulative	**(17,101)**	**(28,391)**	**(40,285)**	**(52,710)**	**(65,430)**

4.9 Measures to Balance the Budget

4.9.1 In 2026-27, a general inflationary increase of 6% was applied to relevant fees and charges. For the Budget Outlook, a range of between 3% (worst case) and 9% (best case), with a mid-range of 6% continues to be assumed each year over the five years 2027-28 to 2031-32.

4.9.2 Some of the management/operational and policy savings options agreed at the Council meeting on 25 February 2026 and in previous years will impact the 2027-28 and future years budgets. These are reflected within the Budget Outlook over the five years 2027-28 to 2031-32.

4.9.3 In terms of Council Tax, a 5% increase continues to be assumed each year in all scenarios. The average increase in Council Tax across all Scottish councils in 2026-27 was 7.78%, with 16 increasing theirs by at least 8%. With a focus on longer term financial

sustainability and in light of the significant forecast budget gap over the next five years, the level of Council Tax increases in 2027-28 and in future years will require due consideration by Members, as part of the budget setting for 2027-28 and future years.

4.9.4 The table below summarises the proposed measures to balance the budget in the mid-range scenario.

	2027-28 £000	**2028-29 £000**	**2029-30 £000**	**2030-31 £000**	**2031-32 £000**
Fees and Charges Increase	467	962	1,487	2,043	2,632
Council Tax Increase	3,918	8,072	12,452	17,072	21,943
Management/Operational Savings – Previously Agreed	583	298	298	298	298
Policy Savings – Previously Agreed	1,153	1,894	1,985	1,842	2,263
Total Measures to Balance the Budget	**6,121**	**11,226**	**16,222**	**21,255**	**27,136**

4.10 Estimated Budget Gap AFTER Measures to Balance the Budget

4.10.1 The table below summarises the updated estimated budget gap in the mid-range scenario.

	2027-28 £000	**2028-29 £000**	**2029-30 £000**	**2030-31 £000**	**2031-32 £000**
Estimated Budget Gap Prior to Measures to Balance Budget	(17,101)	(28,391)	(40,285)	(52,710)	(65,430)
Measures to Balance Budget	6,121	11,226	16,222	21,255	27,136
Estimated Budget Surplus / (Gap) Cumulative	**(10,980)**	**(17,165)**	**(24,063)**	**(31,455)**	**(38,294)**
Estimated Budget Surplus / (Gap) In Year	**(10,980)**	**(6,185)**	**(6,898)**	**(7,392)**	**(6,839)**

4.10.2 In the mid-range scenario, the updated budget gap is estimated at £10.980m in 2027-28 and £38.294m over the five year period 2027-28 to 2031-32.

4.10.3 The budget gap in the best case scenario is estimated at £3.838m in 2027-28 and £10.449m over five years, increasing to £23.899m in 2027-28 and £81.752m over five years in the worst case scenario. A summary of all three scenarios is included within Appendix 1.

4.10.4 The changes from the previous Budget Outlook in the mid-range scenario, reported to the Council in February 2026, are summarised in the table below.

	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	2030-31 £000
Previously reported Budget Surplus / (Gap) Cumulative	**(10,137)**	**(16,383)**	**(23,343)**	**(30,717)**	**(37,538)**
Reversal of Council Tax Re-base	(300)	(300)	(300)	(300)	(300)
Impact of Council Tax Re-base reversal on Council Tax Increase	(15)	(31)	(48)	(66)	(84)
Update to Cost and Demand Pressures	(528)	(451)	(372)	(372)	(372)
Revised Budget Surplus / (Gap) Cumulative	**(10,980)**	**(17,165)**	**(24,063)**	**(31,455)**	**(38,294)**

5. CONCLUSION

5.1 In the mid-range scenario, the budget gap is now estimated at £10.980m in 2027-28 and £38.294m over the five year period 2027-28 to 2031-32. Council officers are continuing to explore budget savings options during 2026-27 and these will be presented to Members in due course.

5.2 This is a very challenging Budget Outlook position. Variations to the assumptions, particularly in respect of future Scottish Government grant funding levels, the pay award and the financial impact of the conflict in Iran would have a significant impact on the Budget Outlook. There are also some known future pressures that are not quantifiable at this stage therefore are not included within this position, as outlined at paragraph 4.5.5. All assumptions will be kept under review, with the Budget Outlook updated, as and when further information becomes available.

6. IMPLICATIONS

6.1 Policy - Sets out the Budget Outlook that provides the financial envelope for policy decisions.

6.2 Financial - Sets best, worst and mid-range scenarios in respect of the Budget Outlook. The council are actively continuing to pursue opportunities to mitigate against future budget gaps.

6.3 Legal - None directly from this report but the Council requires to set a balanced budget.

6.4 HR - None directly from this report but there is a strong link between employee numbers and budgets.

6.5 Customer Service – None directly from this report but any proposals to address the estimated budget gap will require to consider customer service.

6.6 Risk - None directly from this report but any proposals to address the estimated budget gap will require to consider risk.

6.7 Climate Change - The Council is committed to addressing climate change and reviews how Services are delivering this on an ongoing basis, within the available budget resources.

6.8	Fairer Scotland Duty -	None directly from this report but any proposals to address the estimated budget gap will require to consider fairer Scotland issues.
6.9	Equalities – protected characteristics -	None directly from this report but any proposals to address the estimated budget gap will require to consider equality issues.
6.10	Consumer Duty -	None directly from this report but any proposals to address the estimated budget gap will require to consider any consumer specific issues.
6.11	Island Communities -	None directly from this report but any proposals to address the estimated budget gap will require to consider any island specific issues.
6.12	Children's Rights and Wellbeing -	None directly from this report but any proposals to address the estimated budget gap will require to consider any children's rights and wellbeing specific issues.

Kirsty Flanagan
Executive Director/Section 95 Officer
16 July 2026

Councillor Ross Moreland, Policy Lead for Finance and Commercial Services

APPENDICES:

Appendix 1 – Budget Outlook - Best, Worst and Mid-range Scenarios
Appendix 2 – Cost and Demand Pressures (Council Services)
Appendix 3 – Cost and Demand Pressures (Social Work)

For further information contact Anne Blue, Head of Financial Services
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