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

FINANCIAL SERVICES **20 AUGUST 2026**

POTENTIAL IMPACT OF IRAN CONFLICT - UPDATE

1. EXECUTIVE SUMMARY

1.1 A report was presented to Policy and Resources Committee on 21 May 2026 highlighting to Members the potential impact of the conflict in Iran and the broader Arabian Gulf region. This report provides an update on the estimated financial impact of the conflict and gives consideration to the Council's revenue and capital budgets during 2026-27.

1.2 Quantification of the financial estimations contained within this report has been challenging and therefore caution should be applied when placing any reliance on them.

1.3 The potential financial pressure currently identified for 2026-27 is estimated to be up to £0.330m excluding construction costs and borrowing costs which are unlikely to cause an impact until 2027-28. It also does not take into consideration any potential impact on pay award negotiations. It is expected that further costs will transpire as the year progresses, however at this early stage in the financial year those noted within this report outline the current estimated impact for 2026-27.

1.4 It is recommended that Policy and Resources Committee consider the contents of the report.

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POTENTIAL IMPACT OF IRAN CONFLICT - UPDATE

2. INTRODUCTION

2.1 A report was presented to Policy and Resources Committee on 21 May 2026 highlighting to Members the potential impact of the conflict in Iran and the broader Arabian Gulf region. This report provides an update on the estimated financial impact of the conflict.

2.2 Financial Services have reviewed the potential financial impact, however quantifying the estimations has been challenging and therefore caution should be applied when placing any reliance on them.

3.0 RECOMMENDATIONS

3.1 It is recommended that Policy and Resources Committee consider the contents of the report.

4. DETAIL

4.1 This report considers the estimated financial impact of the conflict in Iran for the current year 2026-27.

4.2 Assessing both the scale of cost increases and how long they are likely to last has been challenging, however estimates of the costs currently emerging in 2026-27 are noted within the table below. It is expected that further costs will transpire as the year progresses, however at this early stage in the financial year those noted below outline the current estimated impact for 2026-27.

Description	**Estimated Financial Impact 2026-27 £000**
Business mileage costs – HMRC have increased the mileage rate from 45p to 55p for the first 10,000 miles. Estimate based on 2025/26 costs and likely to be recurring in nature.	120
Utilities/Vehicle Fuel – costs fluctuate on a regular basis regardless so difficult to quantify what is as a result of the conflict. Based on CPI forecasts.	Up to 90

Food costs - costs fluctuate on a regular basis regardless so difficult to quantify what is as a result of the conflict. Based on CPI forecasts.	Up to 120
2026-27 Total	**Up to 330**

4.3 In addition to the above, there are further areas of uncertainty including:

- Construction costs – during the conflict in Ukraine, inflation in construction increased by between 3%-8% on particular construction materials. The overall impact of this may not been seen for a further 6-18 months depending on wage expectations and the impact on increased costs for suppliers, therefore we are anticipating this will not impact us until 2027-28. This may range from £1.3m to £3.5m in 2027-28.
- Borrowing costs - Local authorities borrow to fund their capital programme to the extent that the programme is not being funded by capital grants or revenue resources. While rates remain higher than pre-conflict, the cost of borrowing is higher. The impact of this is difficult to quantify as it is also dependant on reserves held and slippage within the capital programme which impact the timing of when borrowing is required and therefore the rates that will prevail at that point in time are unknown.
- There may also be an impact on pay award negotiations as the employees are impacted by the cost of living crisis, however it would be difficult to establish how much of an increase is as a result of the conflict. Every 1% increase equates to £2.2m.

4.4 As reported to Policy and Resources Committee in May, £900k of capital budget not yet allocated to specific Roads Reconstruction schemes was set aside to cover rising material inflation for all the roads reconstruction projects. As a result of this, Roads Reconstruction has not been considered in the above figures, however, there remains a risk that should material inflation increase significantly, this would not be sufficient.

4.5 On 24 June 2026 Council approved the creation of a £2m contingency from the 2025-26 underspend to address any pressures associated with the conflict. It was also agreed that the Executive Leadership Team (ELT), in consultation with the Leader, Deputy Leaders and relevant Policy Lead, will have delegated authority to authorise expenditure from the contingency. Should any increased costs materialise, the use of the contingency will be exercised via this approvals process and virements reported retrospectively through the routine financial monitoring.

5. CONCLUSION

5.1 The Iran conflict represents a material and multi-year risk to the Council's financial position however it is challenging to quantify this impact. Estimations have been provided within the report based on information available at the time of writing, however caution should be applied when placing any reliance on these figures and it should be noted there may be other areas of pressure not yet identified.

5.2 The potential financial pressure currently identified for 2026-27 is estimated to be up to £0.330m excluding construction costs and borrowing costs which are unlikely to cause an impact until 2027-28. It also does not take into consideration any potential impact on pay award negotiations. It is expected that further costs will transpire as the year progresses, however at this early stage in the financial year those noted within this report outline the current estimated impact for 2026-27.

5.3 A £2m contingency has been set aside to address any pressures that materialise and draw downs from this contingency will be authorised by the Executive Leadership Team (ELT), in consultation with the Leader, Deputy Leaders and relevant Policy Lead, as agreed at Council in June 2026.

6. IMPLICATIONS

6.1	Policy:	None known.
6.2	Financial:	Continuously track developments relating to the conflict and reflect the financial impact within the routine financial monitoring reporting.
6.3	Legal:	None known.
6.4	HR:	The escalating cost of living may influence discussions regarding pay negotiations for the 2027/28 settlement.
6.5	Customer Service:	Rising living expenses are expected to result in greater demand for assistance from the Council, central government, and the broader public sector.
6.6	Risk:	The ongoing Iran conflict poses significant financial and service delivery risks to both the Council and communities throughout Argyll and Bute.
6.7	Climate Change:	None known.
6.8	Fairer Scotland Duty:	None known.
6.9	Equalities Protected Characteristics:	None known.
6.10	Consumer Duty:	None known.
6.11	Island Communities:	Increasing prices and transportation expenses are expected to disproportionately affect island communities.
6.12	Children's Rights and Wellbeing:	Rising living costs are anticipated to negatively affect children's well-being and are expected to increase both eligibility and demand for support services, such as free school meals.

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17 July 2026

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