
Report To:	Policy & Resources Committee	Date:	16 September 2025
Report By:	Interim Chief Financial Officer	Report No:	FIN/50/25/AE
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Subject:	Approach to the 2026/27 Budget		

1.0 PURPOSE AND SUMMARY

1.1 ☒ For Decision ☐ For Information/Noting

1.2 The purpose of this report is to provide the Committee with an initial assessment of the short to medium term budget position of the Council and to seek decisions on elements of the approach to be taken in determining the March 2026 (2026/27) Budget.

1.3 When the March 2025 (2025/26) Budget was agreed it was estimated there was a £16.35 million funding gap, before any increase in Council Tax, over the period 2026/28. This projected gap remained at this level in the June Financial Strategy, a further £7.2 million gap being identified for 2028/29, bringing the total funding gap to £23.55 million for the three-year period 2026/29.

1.4 At the budget setting March 2025, the Council approved £1.245 million use of reserves to balance the 2025/26 budget. The projected funding gap of £23.55 million for 2026/29 is based on negating the use of the £1.245 million reserves over the same period.

1.5 The recently issued Scottish Government Medium Term Financial Strategy (MTFS) and Fiscal Sustainability Delivery Plan (FSDP) confirms the financial challenges facing the Scottish Government in both revenue and capital resources and this confirms that the challenging financial environment for local government is likely to continue.

1.6 In consultation with the Members Budget Working Group (MBWG), the Corporate Management Team (CMT) have considered several areas regarding the approach to the 2026/27 budget setting and have proposed the following recommendations for consideration by the Committee:

- Budget period – propose a rolling 2-year revenue budget (2026/28). The purpose is to set a minimum 1 year budget with the aim to identify savings towards progressing balancing the second year. This will include the standard 3 year capital programme covering 2026/29.
- Council Tax – proposal to give early consideration of a Council tax increase and provide illustrative representations of 3 levels of uplift to Council tax; 5%, 7.5% and 10%.
- Savings – propose a review of the savings identified but not previously taken and that the CMT should develop further saving options. Agree that a workshop should be undertaken with the MBWG to review statutory / non statutory delivery of services.
- Public Consultation – propose a detailed public consultation commencing January 2026, closing early February 2026.
- 2025/26 pay award – propose that the IJB receive a share of the additional Scottish Government funding of 1% agreed pay award

- 1.7 To support the budget development, the Council operates the Delivering Differently programme. The CMT are currently reviewing the projects which will be presented to the MBWG prior to an update report to November 2025 Policy & Resources Committee.

2.0 RECOMMENDATIONS

- 2.1 The Committee note the latest assessed two year funding gap faced by the Council and the key messages from the Scottish Government MTFS which confirm that the significant financial challenges facing the Council remain.
- 2.2 It is recommended the Committee approve the proposals contained in the report as follows:
1. That the Council develops a rolling two year Revenue Budget, setting a minimum one year budget with savings developed to progress balancing the second year budget.
 2. That the Council develops a three year Capital Budget covering the period 2026/29.
 3. That the Council gives early consideration to the level of Council tax for 2026/27.
 4. That the Council approves that a share of the additional Scottish Government pay funding for 2025/26 is passported to the IJB once funding has been confirmed.
 5. That the Council notes the proposed timeline for the public consultation.
 6. That the Chief Executive be given delegated authority to progress Voluntary Early Release (VER) trawls associated with new saving options developed by the CMT on the understanding that releases will be made only on the approval of Committee/Council.
- 2.3 The Committee note that an update to the Delivering Differently Programme projects will be presented to the November Policy & Resources Committee.

Angela Edmiston
Interim Chief Financial Officer

3.0 BACKGROUND AND CONTEXT

- 3.1 The Council approved the 2025/26 Revenue Budget and 2025/28 Capital Programme on 6 March 2025. The revenue budget was balanced, after adjustments, via the approval of £3.383 million of savings, an 8.5% increase in Council Tax and the use of £1.245 million from Reserves. The Capital Programme included a further £1.0 million to the Capital Contingency funded from the improved Capital Grant awarded in 2025/26. This resulted in a £2.890 million over provision of projects which was an over provision of 4.4% but remained within the 5.0% over provision limit set by the Council.
- 3.2 The Annual Accounts for 2024/25 were considered by the Audit Committee on 26 June 2025 and the last projected out-turn position reported to the Policy & Resources Committee in June 2025 was a £0.046 million underspend against the approved budget with surplus reserves of £0.052 million over and above the £4.0 million contingency. The Council approved fully utilising free reserves as part of the budget decisions taken in March 2025 and this decision was reflected in the June 2025 Policy & Resources Committee report. The unaudited accounts are reflecting a similar position to the last Policy & Resources report, with a slight increase on free reserves of £0.325 million. In line with previous years this position may change as the Annual Accounts are finalised.

3.3 Scottish Government Medium Term Financial Strategy

The Scottish Government Medium Term Financial Strategy (MTFS) was published 25 June 2025 alongside a new Fiscal Sustainability Delivery Plan (FSDP). The MTFS reflects the impacts of the UK Spending Review announced on 11 June 2025. The conclusions of the Scottish Spending Review will be published alongside the 2026/27 Scottish Budget in December 2025. The Spending Review is expected to set out indicative resource spending plans up to 2028/29 and capital spending plans up to 2029/30. The main points to note from the MTFS are:

- Growth in overall funding for the Scottish Government budget is set to increase by 0.8 % per annum in real terms.
- Total funding in 2025/26 is £485 million higher than reported in May. This increase is mainly a result of additional funding carried forward to 2025/26, the UK Government changes to the winter fuel payment in England and Wales and lower borrowing costs than planned.
- The resources projected funding and estimated spending is expected to grow from a balanced budget position in 2025/26 to a funding gap of £2.6 billion in 2029/30.
- The capital block grant is expected to decrease by 1.1% in real terms between 2025/26 and 2029/30.
- The capital budget is projecting a £1.1 billion budget gap in 2026/27 rising to £2.1 billion by 2029/30.
- Assumptions for pay are based on the Public Sector Pay Policy published in December 2024. This allowed employers flexibility to configure 3 year pay proposals within a 9% pay envelope commencing 2025/26. Thereafter, pay is assumed at a CPI inflation rate of 2% from 2027/28.
- Health and Social care spend has grown faster than predicted at the last MTFS, 5.6% compared to 4%. The forecast is updated to assume a nominal growth rate of between 5% and 5.4% across the forecast period.

The MTFS confirms the challenging financial position faced by the Scottish Government and this year published the FSDP which sets out the actions that will be taken to close the resources and capital budget gaps. The actions noted are:

- A reduction in public sector workforce of 0.5% per annum over 5 years projecting savings increasing from £0.1 billion to £0.7 billion per year over the 5 year period.
- Wider public sector efficiencies, reforms and revenue raising projecting savings of £0.6 billion to £1.5 billion per annum over the 5 year period.
- Increasing public value with a target saving of between £0.3 billion and £0.7 billion per year over the 5 year period.

3.4 The CMT and MBWG met and considered several areas relating to the approach to setting the budget in March 2026. Consideration was given to the following:

- **Potential Budget Period.** The last multi year settlement from the Scottish Government occurred in 2013/16. The Scottish Government's MTFS states that the Spending Review will include indicative resource spending plans up to 2028/29 and capital spending plans up to 2029/30 alongside the 2026/27 Scottish budget. This may result in the Scottish Government considering a multi year settlement.
- **Council Tax.** Raising Council Tax is a potential step to closing the budget gap. It may be beneficial to consider an increase in Council Tax rates when developing savings proposals to close the budget gap. As part of the March 2025 budget, the Council approved an increase of 8.5% to Council Tax. A 1% increase in Council Tax will now generate approximately £380,000 of revenue for the Council. For illustrative purposes, the table below demonstrates the impact on the residual budget gap if increases on Council Tax of 5%, 7.5% and 10 were applied. It should be noted, to close the 2026/27 budget gap of £8.05 million would require an increase on Council Tax of approximately 21%.

Budget Gap 2026/29

	2026/27	2027/28	2028/29	Total
MTFS June 2025 (For Demonstration)	£m	£m	£m	£m
Projected Budget Gap - Mid Range	8.05	8.30	7.20	23.55
5% Increase in Council Tax				
Income	(1.90)	(2.00)	(2.10)	(6.00)
Residual Budget Gap	6.15	6.30	5.10	17.55
Projected Budget Gap - Mid Range	8.05	8.30	7.20	23.55
7.5% Increase in Council Tax				
Income	(2.85)	(3.08)	(3.30)	(9.23)
Residual Budget Gap	5.20	5.23	3.90	14.33
Projected Budget Gap - Mid Range	8.05	8.30	7.20	23.55
10% Increase in Council Tax				
Income	(3.80)	(4.20)	(4.60)	(12.60)
Residual Budget Gap	4.25	4.10	2.60	10.95

- **2025/26 Pay Award.** The 2025/26 pay award has been agreed at 4%, which is 1% higher than the Council allowed for in the budget strategy. The extra cost will be funded by the Scottish Government and consideration was given to whether a share of the extra funding should be passported to the IJB as it was with the 2024/25 pay deal.
- **Savings.** A significant number of savings options will be required to close the funding gap. CMT have a list of savings options previously presented and not taken with work also underway with the MBWG on statutory and non-statutory service provision to review potential options. The CMT oversee the Delivering Differently Programme and approved Workstreams, and will continue to review projects and identify new projects where possible. An update to the Delivering Differently Programme is due to be reported to Policy & Resources Committee in November 2025.

- **Public Consultation.** Savings proposals to close the funding gap will require a sufficient timescale for consultation with the JBG, MBWG and members of the public. Three options for the consultation process were discussed with the MBWG. Option 1 proposes consultation in September/October 2025 with results reported to Policy & Resources Committee in November 2025. Option 2 proposes consultation in October 2025 with results reported to Council in December 2025. Finally, option 3 proposes a more focused consultation January/ February 2026 with results reported to Council February 2025.

3.5 Capital Programme

At the 2025/26 budget setting and June Finance Strategy, it was highlighted that there is a need to start addressing the size of the Council's physical asset base as part of the coming budget to reduce pressure on the programme. During the budget process, £1 million was added to the Capital contingency from the improved Government Grant. This has subsequently been allocated to the Greenock Central Levelling Up Fund (LUF) project resulting in a reduced capital contingency balance of £1.2 million.

- 3.6 The position reported at the March budget setting, shows an overall shortfall in the Capital Programme of £2.89 million to maintain existing infrastructure. This shortfall in resources is prior to any additional funding or new projects which elected members may want considered, or any major Net Zero investment post 2025/26.

4.0 PROPOSALS

- 4.1 Following consultation with the MBWG, the CMT propose the following recommendations.
- 4.2 The CMT propose to set a rolling two year Revenue budget. The Council faces a budget gap for 2026/28 of £16.35 million. There is recognition that setting a two year Revenue budget may be difficult, therefore, it is recommended a rolling two year Revenue budget to be set. The objective is to set at least a balanced one year Revenue budget with savings being progressed to balance the second year if possible. The CMT recommend a three year Capital budget covering 2026/29.
- 4.3 The Committee is asked to consider the level of Council Tax increase for 2026/27. 1% increase on Council Tax will raise approximately £380,000 of Council Tax income. For illustration, the impact on the budget gap if Council Tax was increased by 5%, 7.5% and 10% can be seen at the table in section 3.4 above. The Committee is asked whether consideration of the indicative level of Council Tax will be made alongside the savings and form part of the public consultation.
- 4.4 The proposed pay agreement is a two-year deal with 4% for 2025/26 and 3.5% for 2026/27. The Scottish Government has provided assurances that they will fund any associated costs over 3%. Like the 2024/25 pay deal, the Scottish Government may expect that a proportion of this is passported to the IJB for social care employees. The CMT would recommend passporting a share of the Scottish Government funding to the IJB once the sum has been confirmed.
- 4.5 The Committee are asked to note that the Delivering Differently projects are required to be updated and will be reported to November Policy & Resources Committee.
- 4.6 The Committee are asked to agree that the Chief Executive be given delegated authority to progress Voluntary Early Release (VER) trawls associated with new saving options developed by the CMT on the understanding that releases will be made only on the approval of Committee/Council.

5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendation(s) is(are) agreed:

SUBJECT	YES	NO
Financial	x	
Legal/Risk	x	
Human Resources	x	
Strategic (Partnership Plan/Council Plan)	x	
Equalities, Fairer Scotland Duty & Children/Young People's Rights & Wellbeing		x
Environmental & Sustainability		x
Data Protection		x

5.2 Finance

The 2026/27 Budget will require a significant level of support from Finance and other services.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
HSCP	Employee Costs	2025/26	TBC	NA	Share of funding from Scottish Government 2025/26 pay contribution.

5.3 Legal/Risk

The budget process carries with it several legal requirements especially around savings and consultation. It is important that sufficient time and capacity is set aside to ensure these are complied with correctly.

The main risks relate to the continued volatility and uncertainty around some of the cost drivers in the budget especially around non-pay inflation. The development of options and regular updates to MBWG/Committee and the Council ensures that officers regularly review the position.

5.4 Human Resources

Based on the estimated 2026/28 funding gap, the employee impacts of the remaining savings and the addition to this from new savings developed, it is clear there will be the need for several VER trawls. This will require detailed discussions via the Joint Budget Group and the potential requirement for increased funding to meet the costs of early releases. During the 2024/26 budget process, the Council approved enhancement to the voluntary severance policy. The enhanced conditions related solely to releases relating to the 2024/26 budget, the enhanced conditions will end on 31 March 2026 and employee releases after 31 March 2026 will revert to the substantive voluntary severance conditions.

5.5 Strategic

The Council Plan should be considered when developing savings proposals.

6.0 CONSULTATION

6.1 The CMT and MBWG have been consulted on this report.

7.0 BACKGROUND PAPERS

7.1 Scotland's Fiscal Outlook: The Scottish Government's Medium Term Financial Strategy 2025
The Scottish Government's Fiscal Sustainability Delivery Plan - 2025