

## Financial Outlook 2026/2027

---

**Date of meeting** 28 November 2025

**Date of report** 18 November 2025

**Report by Director of Finance & Corporate Support**

### 1. Object of report

To present to the Committee the current financial outlook for the UK, Scotland and SPT. The 2026/2027 indicative budget has been updated for known changes in the organisation, whilst the actual draft budget will be presented to the Committee in the new calendar year.

### 2. Background to report

SPT's Revenue budget, including Long Term Financial Strategy, were approved by the Partnership on 14 March 2025. The budget set out the organisation's financial plans for 2025/2026 and 2026/2027. Since the budget was set, there have been changes in both the external and internal environments, which will require to be reflected in the 2026/2027 and future budget estimates. This report is to provide an early indication to the Committee of the challenges facing SPT and the public sector as a whole.

### 3. Economic / Funding Environment

In March 2025, the Office of Budget Responsibility (OBR) published their report on the UK Economic and Fiscal Outlook. At that time, the OBR were forecasting GDP growth of 1%, but this has now been reduced to 0.3% for 2025. Predictions on borrowing, spending and tax receipts were also off the mark, resulting in a current UK budget deficit of £15.3bn. As a general guide, Capital Economics forecast a deficit of about £18bn, meaning the UK Government will have to raise £28bn, mostly through higher taxes, if they want to keep the buffer against the rule of £10bn. How the deficit will be bridged will be contained within the UK budget, which will be laid before Parliament on 26 November 2025.

The UK Spending Review was published in June 2025, which is the process the government uses to set all departments' budgets for future years. The spending review shows an increase in the block grant to the Scottish Government of £1.7bn (£49.8bn from £48.1bn) in 2026/27 and a further £1bn (£50.8bn from £49.8bn) in 2027/28. When taking account of inflation, the spending review figures show growth in real terms of about 0.8% per year.

Following on from the UK Spending Review, the Scottish Government published its medium-term funding scenario (MTFS) which shows a shortfall of £964m in 2026/2027 and £1,897m in 2027/2028, respectively. Although a shortfall is shown, increased funding to local government of 2.7% is detailed for 2026/2027 and 2027/2028. It should be kept in mind that the increases within the MTFS are indicative only and the Scottish Government has a legal requirement to set a balanced budget and is therefore required to fund the projected deficits. The Scottish

Government Budget will be laid before the Scottish Parliament on 13 January 2026. SPT should have an indication of any requisition increase at or shortly after this time.

From the above, it is clear that there is the intention to provide more funding to local government, but when taking account of inflation even a full 2.7% increase would amount to a real terms reduction. In addition, there is still significant uncertainty given the overall deficit position of the UK and Scottish Governments.

#### **4. Revenue Budget Pressures and Opportunities**

A range of revenue budget pressures have already been included in whole or part within the indicative 2026/27 budget, which are detailed below:

- Employers' contribution rate to the Strathclyde Pension Fund increasing from 6.5% to 17.5%, which equates to an approximate additional organisation cost of £2.6m.
- Higher than anticipated salary increases in both 2025/26 (3% v 4%) and 2026/27 (3% v 3.5%), which equates to additional costs of £0.433m.
- Increased costs in relation to Subway Modernisation as there will be a continued period of dual running costs which equates to approximately £2m.
- Increased costs in relation to Bus Reform preparation work as a specific team is created to take SPT aspirations forward and work gets started to take the franchising framework assessment (FFA) forward, which totals £2.35m.
- Increased costs due to the formation of a new Business Intelligence Team to enhanced use of data in support of business as usual and the development and roll out of key strategic projects of approximately £0.325m.
- Increased pressure on the subsidised bus budget due to a range of factors including: inflation, increased contract costs and demand as bus services are reduced by the commercial operators. Current indications are an increase of around £0.5m on the 2025/2026 budget in order to simply maintain current service levels. This has already been reported to the Operations Committee on 7 November 2025.
- General inflationary increases on contracts across the board, some of these increases will already have been factored in, but when excluding areas covered above this is expected to cost SPT an additional £1m from 2026/2027.
- A projected reduction in interest received income of £1.3m due to lower interest rates and reducing reserves/investment fund balances.
- In order to balance the 2026/2027 budget SPT will require to draw a significant sum from earmarked funds. The monies drawn will support the short term additional cost pressures around initial Bus Reform work and the additional revenue costs associated with the Subway Modernisation project.

In line with our original planning assumptions, a 2% increase is assumed for SPT's core requisition, this equates to an extra £0.734m.

Within the current financial year, Subway Income has performed well and it is anticipated that this will continue into future financial years. Taking this into account an extra £0.6m in income has been budgeted for.

The detailed revenue budget for 2026/2027 is currently being finalised and will be presented to the Strategy & Programmes committee for scrutiny at the meeting on 6 March 2026 before being presented to Partnership for approval on 20 March 2026.

#### **5. Capital Plan**

An indicative capital plan has been submitted to Transport Scotland for capital projects which SPT is aiming to deliver over the next 4 years, 2026/2027 to 2029/2030. The total anticipated investment is £193m over that 4 year period (excluding the final stages of Subway Modernisation and any further People and Place funding). In the current year core capital

funding is £12.4m, if capital funding remained at that level for the next 4 years that would leave a capital funding gap of circa £143m within 4 years. Additional capital funding will be required in order to deliver these key projects. The detailed capital budget will also be presented to the Strategy & Programmes committee for scrutiny at the meeting on 6 March 2026 before being presented to Partnership for approval on 20 March 2026.

## 6. Budget Changes

SPT continues to make representations to Scottish Government in respect of multi-year funding for both revenue and capital. In addition, SPT has sought to discuss how regional bodies are funded to deliver in light of the verity house agreement.

The revised estimated 2026/2027 indicative budget, taking account of the above changes where necessary, can be found at Appendix 1. It should be kept in mind that this is simply a high level indication of the anticipated budget position. As further clarity is received in respect of some of the upcoming cost pressures and future funding these will inform the final budget proposals in March 2026.

## 7. Conclusion

SPT is facing significant future cost pressures, with some partially compensating opportunities. The additional organisational costs will be offset in the short to medium term by drawing down on earmarked funds, which have specifically been established to fund specific projects initially. However, funding core services from general reserves is not sustainable over the long term.

## 8. Committee action

The Committee is recommended to note the content of this report.

## 9. Consequences

|                                                  |                                   |
|--------------------------------------------------|-----------------------------------|
| Policy consequences                              | <i>None at present</i>            |
| Legal consequences                               | <i>None at present</i>            |
| Financial consequences                           | <i>As detailed in the report.</i> |
| Personnel consequences                           | <i>As detailed in the report.</i> |
| Equalities consequences                          | <i>None directly.</i>             |
| Risk consequences                                | <i>As detailed in the report.</i> |
| Climate Change, Adaptation & Carbon consequences | <i>None at present.</i>           |

**Name** Lesley Aird  
**Title** **Director of Finance & Corporate Support**

**Name** Valerie Davidson  
**Title** **Chief Executive**

For further information, please contact *Stuart Paul, Head of Finance* on 07458 126836.

## APPENDIX 1

|  | <b>2026/2027 Indicative Budget with Amendments</b> |                  |                                      |                                                                                                                       |
|-----------------------------------------------------------------------------------|----------------------------------------------------|------------------|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
|                                                                                   |                                                    |                  |                                      |                                                                                                                       |
|                                                                                   |                                                    |                  |                                      |                                                                                                                       |
|                                                                                   | Draft Budget<br>2026/27<br>£                       | Adjustments<br>£ | Indicative<br>Budget<br>2026/27<br>£ | Comments                                                                                                              |
| <b>Expenditure</b>                                                                |                                                    |                  |                                      |                                                                                                                       |
| Employee Costs                                                                    | 32,081,013                                         | 1,014,834        | 33,095,847                           | Additional short-term costs associated with Bus Reform and Subway Modernisation etc                                   |
| Property Costs                                                                    | 10,153,932                                         | 200,000          | 10,353,932                           | Anticipated additional inflationary pressures                                                                         |
| Supplies & Services                                                               | 1,217,972                                          |                  | 1,217,972                            |                                                                                                                       |
| Transport & Plant Costs                                                           | 131,000                                            |                  | 131,000                              |                                                                                                                       |
| Bus Operator Payments                                                             | 18,344,350                                         | -335,445         | 18,008,905                           | Original 26/27 budget assumed an £0.835m increase from 25/26, the anticipated increase has been revised down to £0.5m |
| Third Party Payments                                                              | 14,241,612                                         | 666,000          | 14,907,612                           | Updated forecast based on known changes within Bus Reform and Subway Modernisation etc                                |
| <b>Total Expenditure</b>                                                          | <b>76,169,879</b>                                  | <b>1,545,389</b> | <b>77,715,268</b>                    |                                                                                                                       |
| <b>Income</b>                                                                     |                                                    |                  |                                      |                                                                                                                       |
| Operational Income                                                                | -30,221,823                                        | -600,000         | -30,821,823                          | Increase in Subway Ticket Revenue Budget                                                                              |
| Interest Received                                                                 | -5,700,000                                         |                  | -5,700,000                           |                                                                                                                       |
| <b>Total Income</b>                                                               | <b>-35,921,823</b>                                 | <b>-600,000</b>  | <b>-36,521,823</b>                   |                                                                                                                       |
|                                                                                   |                                                    |                  |                                      |                                                                                                                       |
| <b>Net Total</b>                                                                  | <b>40,248,056</b>                                  | <b>945,389</b>   | <b>41,193,444</b>                    |                                                                                                                       |
| <b>Funded by:</b>                                                                 |                                                    |                  |                                      |                                                                                                                       |
| SPT Requisition                                                                   | 36,681,976                                         | 733,640          | 37,415,616                           | Potential 2% increase in requisition                                                                                  |
| RTP Core Funding                                                                  | 617,025                                            |                  | 617,025                              |                                                                                                                       |
| Transport Future Investment Fund                                                  | 1,500,000                                          | 850,000          | 2,350,000                            | Increase to reflect anticipated additional Bus Reform initial costs                                                   |
| Subway Fund                                                                       | 1,449,055                                          | -638,251         | 810,804                              | Reduced due to increase in requisition income.                                                                        |
| <b>Total Funding</b>                                                              | <b>40,248,056</b>                                  | <b>945,389</b>   | <b>41,193,444</b>                    |                                                                                                                       |