

REPORT TO: East Lothian Council

MEETING DATE: 29 April 2025

BY: Executive Director for Council Resources

SUBJECT: Finance Update

1 PURPOSE

- 1.1 To provide an update on the final local government finance settlement following approval of the council's budget for 2025/26.
- 1.2 To seek approval for an amendment to the 2025/26 capital programme.
- 1.3 To provide an update on the broader actions agreed as part of the budget, and next steps to develop the financial strategy and budgets for 2026/27 onwards.

2 RECOMMENDATIONS

- 2.1 Council is recommended to:
 - Note the current funding position for 2025/26 based on the final local government finance order, as set out at paragraphs 3.2–3.5.
 - Agree that provision will be made within the 2025/26 capital programme for East Linton Primary School toilet upgrades, noting that this will be fully funded from developer contributions.
 - Note that a further update on paused capital projects will be brought back to a future Council meeting.
 - Note the wider updates and ongoing work to support budget development for 2026/27 onwards.

3 BACKGROUND

2025/26 Funding Update

- 3.1 Council approved the revenue and capital budgets for 2025/26 onwards for the general services and housing revenue account on 18 February 2025. At this time, the projections were based on the draft local government finance settlement.
- 3.2 The Local Government Finance (Scotland) Order for 2025/26 was approved by Scottish Parliament on 28 February 2025. This confirmed the amounts due to be paid to each local authority in 2025/26. It should be noted that the following funding streams remain undistributed at this stage, meaning the allocation is still to be confirmed:
- Additional Support for Learning £28 million (the Council's assumed share of this is £0.607 million)
 - Children's Social Care Pay £13.1 million (the Council's assumed share of this is £0.257 million)
 - Teacher Induction Scheme £37.6 million (the Council's assumed share of this is £0.582 million)
 - Criminal Justice Social Work £86.5 million (this funding is passed to the IJB and the assumed share of this is £1.065 million)
- 3.3 Any differences between the actual funding allocations and the assumed amounts, will be reported to Council through regular finance updates during the year.
- 3.4 Updates to the following revenue funding streams have been notified since the budget was set:
- Employer National Insurance Contributions – this funding was previously undistributed, and the approved budget reflects estimated funding of £2.749 million. Funding has now been confirmed at £2.819 million.
 - Early Learning and Childcare Real Living Wage – the approved budget for 2025/26 reflects additional funding of £0.68 million to support this policy commitment. The updated circular has confirmed a funding increase of £0.213 million. The difference arose due to an error in the draft circular, which reflected funding that was already included within the 2024/25 baseline. This represents a difference to the budget which Council approved on 18 February; however, it is anticipated that the funding allocation will be sufficient to meet the costs of the increase to the real living wage in this service area.
- 3.5 The updated circular reflects general capital grant of £2.002 million which includes climate emergency funding of £0.812 million. In addition, the Council has been allocated £0.496 million specific grant funding for Active

Travel Infrastructure Fund Tier 1, bringing the total capital allocation to £2.498 million.

Capital Programme – Review of Paused Projects

- 3.6 The capital programme agreed by Council included a number of projects which have been paused, pending a review of requirements against the Council's statutory duties and key priorities, in the context of affordability constraints. This work remains ongoing, and recommendations will be presented to a future Council meeting.
- 3.7 In the short term, a need has been identified for capital investment in East Linton Primary School including a toilet extension and alterations to meet the School Premises Act. It is anticipated that the costs of the proposed works will be met from developer contributions already held by the Council and consequently will not give rise to an increased borrowing requirement. Council is therefore asked to agree the inclusion of these works within the capital programme for 2025/26.

Other Budget Actions

- 3.8 As part of the budget approved by Council for 2025/26, a number of additional actions were agreed to support future budget development and the Council's financial strategy. An update on progress to address these actions is provided below:

- i) Action: In light of the significant funding gap which the Council faces for 2026/27 onwards, officers across all service areas are being asked to progress further work to develop a range of options to close the funding gap, aligned to levers set out within the financial strategy, and Council plan objectives.

Update: The Council Management Team has developed an initial list of proposals to close the budget gap through reductions to service budgets. This list is a live document that will be shared with Members for consideration as part of the budget development process.

- ii) Action: Working to incorporate effective and meaningful engagement with the public and other key stakeholders in reporting and monitoring the financial decisions which underpin the budget.

Update: This is subject to ongoing consideration and will be supported through the Council's Participation and Engagement Strategy which is currently under development.

- iii) Action: A review of oversight and scrutiny arrangements for housing policy, performance and strategic planning to support the development of a longer-term strategy for the housing revenue account, encompassing the business plan and future rent levels.

Update: Existing governance and scrutiny arrangements have been summarised within a discussion paper to be considered by the cross-party budget working group. Any recommendations to change or augment these arrangements will be presented to Council for consideration.

- iv) Action: As part of the cross-party group's ongoing work to support strategic financial planning and budget development, focus areas over the coming year will include a renewed emphasis on poverty and inequality, ensuring that resources are prioritised towards progressing work in this area, and developing the longer-term financial relationship with external partners including the IJB, Enjoy Leisure and the Brunton Theatre Trust.

Update: The cross-party budget working group will meet on 23 April, and future agenda items will be considered at this meeting.

Budget Development Next Steps

- 3.9 The recommended next steps to supporting the development of the Council's future budget plans are outlined below:

Date	Meeting	Action
June 2025	Council	Provisional outturn report 2024-25.
August 2025	Council	To consider the financial landscape and context for budget setting for 2026-27 onwards, including an update on progress with discussions aligned to closing the funding gap.
August 2025	Council	Q1 financial update report, to include an overview of progress towards delivering agreed savings for 2025-26.
October 2025	Council	Draft financial outlook report to Council, setting out high-level budget forecasts and measures to balance the budget for 2026-27 onwards.
December 2025	Council	Q2 financial update report, to include an overview of progress towards delivering agreed savings for 2026-27.
December 2025	Council	Consider the financial and capital strategies for 2026-27 onwards.

January 2026	Cabinet	Budget development update, including implications of the draft local government finance settlement.
February 2026	Council	Council budget meeting to agree budgets for 2026-27 onwards, and set council tax and rent levels for the forthcoming financial year.

4 POLICY IMPLICATIONS

- 4.1 This report provides Council with contextual information regarding the Council's budget and financial strategy which seek to maintain alignment with the policy direction set out in the Council Plan. The objectives support the short-term priority of ensuring financial sustainability by delivering approved savings and transforming service delivery.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 Integrated impact assessments relating to specific decisions or policy changes made through the budget development process will be undertaken at the appropriate time. With the commencement of the United Nations Convention on the Rights of the Child (Incorporation) (Scotland) Act 2024, the Council is required to ensure that decisions taken as part of the budget are not incompatible with the rights of children.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – as described in the report.
- 6.2 Personnel - none
- 6.3 Other – none

7 BACKGROUND PAPERS

7.1 Council – 18 February 2025: Budget, Council Tax and Rent Setting 2025/26 Onwards

AUTHOR'S NAME	Ellie Dunnet
DESIGNATION	Head of Finance
CONTACT INFO	edunnet@eastlothian.gov.uk
DATE	8 April 2025