

<b>COMMITTEE:</b>	East Lothian Council
<b>MEETING DATE:</b>	26 August 2025
<b>BY:</b>	Executive Director for Council Resources
<b>REPORT TITLE:</b>	Budget Development 2026-27 Onwards
<b>REPORT STATUS:</b>	Public

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## **1 PURPOSE OF REPORT**

- 1.1 To support the development of the five-year budget plans for 2026-27 onwards.
- 1.2 To provide Members with updated budget projections, scenario planning and a revised funding gap, and to highlight the key assumptions and risks within these.
- 1.3 To outline the process and next steps for setting the financial strategy and budgets for 2026-27 onwards.

## **2 RECOMMENDATIONS**

Members are recommended to:

- 2.1 Note the financial outlook, revised budget projections and key assumptions for financial planning 2026-27 onwards set out within the report.
- 2.2 Note the significant risks which the Council continues to face to financial sustainability and balancing the budget over the medium term.
- 2.3 Agree that the measures to deliver the further budget savings detailed within paragraph 3.18 (Table 1) will be implemented from 1 April 2026.
- 2.4 Agree the next steps to developing the budget and financial strategy for 2026-27 onwards, as set out within paragraph 3.40.

### 3 BACKGROUND

- 3.1 This report sets out the context for developing the 5-year financial strategy and budget plan for 2026-27 onwards, including key considerations for both revenue and capital General Services and Housing Revenue Account (HRA) budgets. It will cover an overview of the current national and local context, an update to the high-level revenue projections for general services, alternative scenario plans, key assumptions, risks and next steps.
- 3.2 Since the 2025-26 budget was agreed, the cross-party budget working group has continued to meet to discuss the financial challenges facing the Council and the possible decisions that Council will need to consider over the medium term in order to balance future budgets, ensure financial sustainability and deliver on priority outcomes.

#### National & Local Context

- 3.3 The Council continues to operate in a highly uncertain economic climate, with single-year finance settlements up to and including 2025-26 presenting significant challenges to medium-term financial planning.
- 3.4 The UK Government Spending Review<sup>1</sup> announcement on 11 June 2025 covers the years 2026-27 to 2028-29 for resource (day-to-day) spending and up to 2029-30 for capital, and reflects average annual increases in spending of 1.5% between 2025-26 and 2029-30. Within this, commitments to increase spending on defence and NHS (England) will likely mean a real terms cut to other budgets.
- 3.5 The future Scottish growth rate for resource spending is 0.8% and commentators have indicated that all of this could be absorbed by the NHS in Scotland. The settlement for Scotland announced as part of the chancellor's Spending Review was below the previous forecasts made by the Scottish Fiscal Commission on both the capital and resource side.
- 3.6 On 25 June 2025, Scottish Government's medium-term financial strategy (MTFS)<sup>2</sup>, its Fiscal Sustainability Delivery Plan<sup>3</sup> and Scottish Fiscal Commission updated forecasts<sup>4</sup> were published. This identifies that excluding welfare spend, there will be no increase to the real terms

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<sup>1</sup>[https://assets.publishing.service.gov.uk/media/686270a608bf2f53761219fc/E03349913\\_HMT\\_Spending\\_Review\\_June\\_2025\\_TEXT\\_PRINT\\_CS.pdf](https://assets.publishing.service.gov.uk/media/686270a608bf2f53761219fc/E03349913_HMT_Spending_Review_June_2025_TEXT_PRINT_CS.pdf)

<sup>2</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2025/06/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-3/documents/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-2025/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-2025/govscot%3Adocument/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-2025.pdf>

<sup>3</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2025/06/scottish-governments-fiscal-sustainability-delivery-plan/documents/scottish-governments-fiscal-sustainability-delivery-plan-2025/scottish-governments-fiscal-sustainability-delivery-plan-2025/govscot%3Adocument/scottish-governments-fiscal-sustainability-delivery-plan-2025.pdf>

<sup>4</sup> <https://fiscalcommission.scot/wp-content/uploads/2025/06/Scotlands-Economic-and-Fiscal-Forecasts-Update-June-2025-Summary.pdf>

revenue funding position between 2026-27 and 2028-29. The capital funding outlook to 2030-31 is a year-on-year reduction in real terms.

- 3.7 With expenditure demands forecast to grow by just over 2% each year, this gives rise to a substantial funding gap for Scottish Government over this period, estimated at almost £5 billion within the MTFS although subsequent analysis indicates that the deficit could increase to around £6.5 billion.
- 3.8 The Fiscal Sustainability Delivery Plan (FSDP) sets out the actions the Scottish Government is intending to take to close this funding gap, including:
- A reduction in workforce of 0.5% a year, saving £700 million by 2029-30. (Given the expected increases in NHS staffing this is likely to mean bigger staff cuts elsewhere.
  - Wider public sector efficiencies and reforms and revenue raising to save a further £1.5 billion by 2029-30. This is likely to mean substantial reductions in administration costs.
  - Increased “public value”, expected to generate savings between £300 million and £700 million a year.
- 3.9 In total, these actions are expected to generate enough savings to close the resource spending gap, with more detail on how cashable savings will be achieved expected as part of the Scottish Spending Review in December.
- 3.10 The Scottish Fiscal Commission’s assessment of future spending pressures notes that the recently agreed public sector pay deals which include an element of protection from inflation may present risks to the size of the funding gap and the ability to close it.
- 3.11 There is less detail in the FSDP on how the Scottish Government intends to close the capital gap, although greater private sector involvement is mentioned. The position is expected to become clearer after publication of a refreshed Infrastructure Investment Plan, alongside the 2026-27 Budget, and the draft Climate Change Plan, also due later this year.
- 3.12 Scottish Government also published its Public Sector Reform Strategy<sup>5</sup> in June. The strategy sets out Scottish Government’s plans for creating a system that will significantly increase the scale and pace of change is collaborative and integrated by default, and outlines plans to ensure that the public services system will:
- Be efficient and effective with the right-size delivery landscape.
  - Better join up services and focus on helping people.

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<sup>5</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2025/06/scotlands-public-service-reform-strategy-delivering-scotland/documents/scotlands-public-service-reform-strategy-delivering-scotland/scotlands-public-service-reform-strategy-delivering-scotland/govscot%3Adocument/scotlands-public-service-reform-strategy-delivering-scotland.pdf>

- Prioritise prevention.
  - Empower people and communities to shape the services that matter to them.
  - Be fiscally sustainable.
- 3.13 At this stage, it is difficult to determine what the implications of these national announcements will be for the local government sector. Given Scottish Government's stated key priorities (child poverty, cutting NHS waiting times, climate change, economic growth and a shift in funding towards prevention and early intervention), it is likely that other areas may face significant real terms cuts post 2025-26. The Scottish Parliament Information Centre's analysis<sup>6</sup> of the MTFS announcement noted that local government's share of total Scottish Government spending falls from 24.4% in 2025-26 to 23% in 2029-30.
- 3.14 At a local level, while the precise impact will not be known until December, these announcements indicate that the funding challenges which the Council has faced in recent years are likely to remain a prominent feature of budget setting over the medium term. This means that the Council's financial strategy must maintain its focus on taking sustainable budget decisions and ensuring that resources are targeted to the areas of highest need.
- 3.15 The next key fiscal event will be Chancellor's Autumn Budget which is anticipated in late October or early November. The next major stage of the budget process in Scotland will follow in December when the Scottish Government publishes the 2026-27 budget alongside the conclusions of the Scottish Spending Review, as well as supporting documents on Public Sector Pay Policy and the results of a multi-year resource spending review.

#### Revised Budget Projections – General Services

- 3.16 Council agreed the 5-year budget plan for 2025-26 onwards on 18 February 2025, which reflected the following:
- 10% council tax increase in 2025-26, with indicative annual increases of 5% in the following 4 years.
  - Planned revenue savings totalling £8.9 million over the next 5 years.
  - Use of £9.980 million from the capital fund in 2025-26, to smooth the impact of debt charges.
  - Capital investment (general services) of £211 million over the next 5 years
  - Allowance for pay pressures of 3% in 2025-26 to 2027-28, and 2% in the subsequent two years.

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<sup>6</sup> <https://spice-spotlight.scot/2025/07/15/balancing-the-scottish-budget-the-challenges-ahead/>

- Flat cash settlement in all years from 2026-27 onwards.

3.17 Ongoing challenges brought about by population growth and demographic change are continuing to increase the gap between available funding and growing expenditure demands. As one of the fastest growing council areas in Scotland, this remains a significant challenge at a local level, and is set alongside other pressures facing the whole of the public sector including pay and contract inflation, growing demand for services and increasing expectations arising from new policy commitments at a national level. Officers and Members continue to raise awareness of these challenges through the appropriate channels within Scottish Government and COSLA.

### **Revenue**

3.18 The strategic budget model has been rolled forward and updated to reflect recent developments likely to significantly impact the financial projections. In accordance with the budget development framework, the strategic projections span the next 5 years, and the budget model has been updated to incorporate 2030-31 as year 5. A summary is provided within **Appendix 1**, and key changes are summarised below:

**Pay:** A two year pay deal has been agreed for local government employees, craft workers and chief officials covering 2025-26 and 2026-27. This will see annual pay increases of 4% and 3.5% respectively, applicable from 1 April with the costs over and above 3% being met through additional Scottish Government funding. The updated budget model in Appendix 1 reflects this increase assuming that the same uplifts will also be applied to teachers pay (noting that these negotiations remain ongoing at the time of drafting this report.) This does not give rise to any net change in the budget model, given the previous assumption of a 3% increase and assumed funding for the additional 0.5% which has been incorporated into the model. The future years' pay assumptions reflect 3% increases in 2027-28 and 2028-29, and 2% in the subsequent 2 years.

**Cost pressures:** The model has also been updated to reflect known and emerging non-pay related revenue budget pressures including inflation, revenue costs of capital and new policy obligations. Cost pressures shown include investment in the following areas in 2026-27:

Education: £0.6 million growth to fund the implementation of minimum learning hours for primary 1 and 2. In addition, further growth of £1.3 million is included to support the revenue costs of the expansion of the school estate due to population growth.

Inclusion & Wellbeing: £0.8 million investment to support demographic growth and increasing demand for these services.

Children's Services: £0.56 million budget increase to reflect demographic growth, and to target growth in the number of internal foster carers.

Health & social care: £1m which reflects demographic growth and transitions.

**Funding:** As noted above, the model has been updated to reflect additional funding to support the 2026-27 pay award, including a proportionate share that will transfer to the IJB. In addition, the model also reflects assumed funding to support the Real Living Wage increases, which will also impact on the funding that will transfer to the IJB. This assumption is based on precedent but will not be confirmed until the draft settlement is received in December.

Funding of £3.79 million to support the packaging Extended Producer Responsibility (EPR) is anticipated in 2025-26. The Council has not yet received notification of the level of funding it is due to receive in 2026-27, but it is possible that the amount will be lower than the current year.

**Council Tax:** The model continues to reflect assumed annual council tax increases of 5%, but these projections have been updated to reflect current assumptions regarding the tax base (i.e. the number of properties liable to pay council tax, adjusted according to banding and assumed levels of discounts and reductions).

**Existing savings:** As noted above, Council has previously agreed to the delivery of savings measures totalling £8.9 million over the next 5 years (including the current financial year). Officers are continuing to progress these decisions; however, a high degree of risk has been identified to the timing of delivery of some of the agreed savings. Appendix 1 accordingly reflects a proposed reprofiling of some of the previously agreed savings to reflect anticipated delivery dates. In addition, the quarter one monitoring position has identified the following savings which are considered to be unachievable and the proposed updates to the 2026-27 budget model reflect these pressures:

- City Region PMO £0.045 million – this saving would require agreement of all partners and is not considered achievable at this stage. A further cost pressure has emerged during the year from an increased charge to support this. Alternative measures to deliver a saving from this service area form part of the proposed new savings noted below.
- Review of public holidays £0.3 million – while discussions remain ongoing, this saving which was part of the budget agreed in 2023-24 has not yet been delivered.

**New savings:** In addition to the savings previously agreed by Council, the Council Management Team has been working alongside the cross-party budget working group to identify further budget savings to close the budget gap. The budget model reflects further reductions totalling £1.468 million and it is proposed that Council agrees these reductions as part of this report. A breakdown of these savings is shown below:

Service Area	Proposal	2026/27 £000	2027/28 £000
Infrastructure	Reduce costs of cleaning equipment	2	
Infrastructure	Full recharge of amenity services to common good	123	
Infrastructure	Wallyford Learning Campus Income	100	
Infrastructure	Capital Recharge for Project Management	25	
Infrastructure	Contract / Utility Efficiencies (Active Business Unit)	25	
Infrastructure	Contract Efficiencies - Amenities	50	
Infrastructure	Plant nursery income	20	
Infrastructure	Increase burials charges - 5%	20	
Communities	Redesign library HQ functions in light of new system	35	
Housing	Reduction in use of B&B accommodation	30	20
Development	Planning fee increase	33	
Development	Reduce non-staffing tourism budget	30	
Education	Reduce catering budget	870	
Council Support	Introduce Bring Your Own Device for Mobile Phones	42	
Council Support	Digitisation/efficiencies within registrars service	3	
Finance	Loan restructure	40	
	<b>Total</b>	<b>1,448</b>	<b>20</b>

*Table 1: Proposed additional savings 2026-27 onwards*

**Salary slippage:** The revised budget model reflects increases to the assumed vacancy factor in response to pay and NI increases and recent and projected budget outturn for staff costs.

- 3.19 The results of this give rise to an updated 5-year budget gap of £73.8 million including IJB pressures of £9.2 million. Members will be aware that both the Council and the IJB must set balanced budgets which means taking steps to close the gap between the available resources and expenditure demands.
- 3.20 After taking account of planned savings and indicative annual council tax rises of 5%, the residual five-year budget gap remains at £43.5 million. This includes a residual budget gap in 2026-27 of £10.4 million. In setting balanced budgets for each of these years, Council will need to agree savings or apply further council tax increases in order to close the budget gap, unless additional government funding is forthcoming. HSCP budgets are set by the IJB and will need to be balanced either through the identification of savings or additional funding.
- 3.21 It is recommended the high-level projections set out within Appendix 1 form the initial basis of financial planning to develop the general services revenue budget for 2026-27 onwards. Work will continue to update these projections over the coming months ahead of the budget setting meeting. Key areas will include:
- Updates to incorporate implications arising from UK and Scottish Government budget announcements and the 2026-27 local government finance settlement.

- Updated debt charges aligned to the revised capital programme, interest and cash flow forecasts,
- Updates to bring inflationary and indexation pressures in line with the correct levels.
- Updates to the forecast demographic pressures within IJB delegated services.
- Quantifying the impact of employer NIC increases on commissioned services as these crystallise over the coming months, which may result in further increased pressure for the IJB.
- Revised cost pressures to incorporate material changes to policy, demographic pressure or external risk factors which emerge during the current financial year.
- Inclusion of further proposed savings to close the funding gap enabling a balanced budget to be set for 2026-27.
- Consideration of the potential impact of a pay and grading review.

### Scenario Planning

3.22 Recognising the range of variables that exist within the updated projections, two alternative scenarios have been developed which reflect the potential impact of changes to the key assumptions reflected in **Appendix 1**. The three scenarios are summarised below with the 'neutral' case used for planning purposes set against alternative favourable and adverse scenarios. Table 2 shows the overall funding gap in each of the 3 scenarios, and table 3 shows the residual gap after taking account of planned savings and assumed council tax increases.

	2026-27 £000	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	Total £000
<b>Favourable</b>	16,940	12,071	10,363	11,840	12,402	63,616
<b>Neutral</b>	17,940	17,528	14,129	11,549	12,636	73,782
<b>Adverse</b>	22,542	21,658	15,783	15,159	16,156	91,298

*Table 2: Scenario planning: Funding gap council + IJB*

	2026-27 £000	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	Total £000
<b>Favourable</b>	9,305	6,659	4,764	5,901	6,214	32,843
<b>Neutral</b>	10,356	12,220	8,630	5,721	6,561	43,488
<b>Adverse</b>	16,647	18,257	12,355	11,602	12,549	71,410

*Table 3: Scenario planning: Savings required council + IJB*

3.23 Within Tables 2 and 3 above, the following variables have been applied to the assumptions applied in the neutral scenario:



### **Favourable scenario (shown in green)**

- Assumes annual pay awards of 2% from 2027-28 onwards.
- Assumes a 10% higher completion rate on new homes for council tax purposes than the neutral scenario.
- Assumes that all savings will be delivered in line with existing plans.
- Assumes a reduced level of emerging service pressures and lower future employer pension contribution rates.

### **Adverse scenario (shown in red)**

- Assumes annual pay awards of 3% from 2027-28 onwards.
- Assumes a 10% lower completion rate on new homes for council tax purposes than the neutral scenario.
- Assumes a lower level of savings in the staffing budget due to vacancies.
- Assumes that council tax increases will be capped at 3%.
- Assumes increased pressures arising from policy change at a national level, including reduced class contact time.

3.24 The neutral scenario reflects the recommended basis for planning and is summarised within Tables 2 and 3 (shown in **amber**) above for the purpose of comparison.

3.25 While it is hopefully unlikely that all the assumptions set out in the adverse scenario above would materialise, this sets out the potential scale of risk which the Council could face, amounting to a 5-year funding gap of £91.2 million. This reflects a significant increase on the 5-year adverse scenario projection for 2024-30, reported to Council last August and would present a significant risk to financial sustainability if this were to materialise.

3.26 Development of the budget will be informed on an ongoing basis by consultation feedback through the council's Participation and Engagement strategy. In the shorter term, consideration will be given to issue budget survey to inform and support budget development for 2026-27.

### **Capital**

3.27 As noted elsewhere in this report, the 5-year capital plan agreed by Council on 18 February 2025 reflects capital expenditure plans totalling £211 million. After taking into account slippage from 2024-25 capital budgets, as well as a review of paused capital projects, gross planned capital expenditure over the next 5 years of £248 million is expected, giving rise to a net new borrowing requirement of £122 million. The updated 5-year capital budget is shown at **Appendix 2**.

3.28 In the context of the existing capital financing requirement of £390 million for general services, consideration will need to be given to the

sustainability of the current and future capital programmes in terms of the overall debt position, as well the revenue costs of financing this.

3.29 Population growth has been one of the key drivers of capital investment in recent years, with investment in the learning estate representing a significant proportion of recent and planned capital expenditure. In light of funding constraints, increased borrowing costs and reduced availability of capital grants it is appropriate at this stage to consider and prioritise these plans within current affordability parameters, using the criteria set out in the capital strategy:

- Expenditure required for statutory reasons, for example to ensure that an asset meets any health and safety requirements;
- Self-funding schemes which fit in with strategic planning priority outcomes and resource requirements;
- Priority schemes with significant external funding;
- Schemes directly focused on Council Plan priority outcomes;
- Schemes which will support the delivery of recurring savings within the Council's revenue budget (investment to save);
- Schemes which will deliver significant social and health benefits within the housing provision.

3.30 At this stage, there are known further expenditure demands totalling £43.5 million in 2030-31, giving rise to a further borrowing requirement of £1.9 million. Revised future capital expenditure requirements will be collated over the coming months and will need to be considered against the criteria set out above.

## **HRA**

3.31 As part of the budget meeting in February 2026, Council will meet to set the rent levels for the next financial year. The core assumptions set out in the existing strategy reflect assumed annual increases of 5%, subject to the satisfaction of the following key tests:

- Minimising the impact of debt charges by operating within the recommended upper limit for the ratio of debt charges to income of 40% and maximising the in-year use and application of capital receipts, available capital grants, and revenue balances where possible.
- In support of contingency planning, ensuring that the reserve or balance left on the HRA does not fall below £1.0 million, allowing the Council to maintain a cushion against any unexpected increase in costs or loss of income.

3.32 Risks arising from the removal of affordable housing subsidy for the current financial year, coupled with uncertainty over the availability of funding in future years present a significant risk to financial planning, and the Council's capacity to increase the supply of affordable housing in East Lothian. Officers are in the process of updating HRA budget projections for 2026-27 onwards, and the implications of these risks will

require careful consideration to ensure that revised plans remain sustainable in the context of reduced capital funding. Alongside this, work is underway to develop a 30-year business plan for the HRA to support strategic capital planning and inform the future rent strategy. It is anticipated that the initial work to develop the longer-term business plan will be completed in 2026.

#### Budget Development Principles

3.33 Council has adopted the following budget development principles as part of the current Financial Strategy:

- i. Establishment of a cross-party budget working group to oversee the development of detailed budget proposals and the different work streams supporting this.
- ii. Commitment to developing an approach aligned to the financial strategy which combines a range of options to close the gap between available funding and anticipated expenditure including an enhanced programme of transformation, asset review, income generation, cost reduction and efficiency.
- iii. A holistic approach to budget development, which recognises the relationship between capital and revenue planning and the role of investment in cost reduction strategies.
- iv. Commitment to minimising the use of one-off resources to balance the budget and ensuring that use of reserves is limited to investment that will deliver ongoing cost reductions.
- v. Ensuring alignment of financial planning and resources with wider strategic priorities, the Council Plan and consultation results.
- vi. Consideration of a 5-year budget plan aligned to the financial and capital strategies.

3.34 In addition, the financial strategy identifies the following critical enablers to support the delivery of change which will be vital to ensuring financial sustainability, as well as seizing opportunities which enable improvement and innovation:

- Investing in digital transformation
- Resourcing and enabling the asset review
- Support for service reviews and wider transformation
- Cost reduction through energy efficiency
- Investment in early intervention and prevention
- Developing and growing income streams

- 3.35 Council has made a commitment to support transformation workstreams through reserves created through the application of fiscal flexibilities in 2023/24. The proposed Transformation Strategy, which is subject to consideration by Council at this meeting details the vision and approach to transformation, as well as the arrangements in place to monitor and report progress.
- 3.36 Over the coming months, these principles will be considered as part of the development of the financial strategy for 2026-27 onwards which will be presented to Council in December. A key priority to support future budget planning over the medium term and build on these principles will be early development and decision making around savings opportunities over the medium term.

#### 2025-26 Budget Actions

- 3.37 A number of actions were approved by Council alongside the current year's budget 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 options to close the budget gap through reductions to service budgets which has been shared with members. Some of these proposals have been incorporated into the updated projections as additional savings to reduce the budget gap, and it is recommended that Council agrees that these are taken forward as part of this report.

- 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. Consideration will be given to running a budget survey in order to supplement this work ahead of the 2026-27 budget.

- 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: A cross-party housing group has been established and is due to meet for the first time on 19 September. Alongside this, work to develop the long-term business plan is progressing.

- 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: These areas remain subject to ongoing consideration through the cross-party budget working group.

### Conclusion & Next steps

- 3.38 This report highlights the range of uncertainties and challenges which the Council faces in developing its budgets for 2026-27 onwards. The financial environment continues to present one of the biggest risks to the Council's ability to deliver on its priorities and achieve positive outcomes for our people and communities.
- 3.39 Despite this, the recurring general services revenue budgets continue to commit annual expenditure in excess of £340 million to support service delivery, alongside significant capital investment to meet the needs of our growing population. Budget planning will therefore focus on a sustainable approach to prioritising these resources to ensure that the best possible outcomes are achieved for East Lothian residents, and that limited resources are targeted to the areas of greatest need.
- 3.40 The current indicative budget development timetable was considered by Council in April. Key milestones and activities are summarised below:

Date	Meeting	Action
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 and significant changes to high level budget forecasts and

		measures to balance the budget for 2026-27 onwards.
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.

*Table 4: Indicative budget development timetable 2026-27 onwards*

## 4 POLICY IMPLICATIONS

- 4.1 This report sets the context for development of the Council's budget and financial strategies 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 RESOURCE AND OTHER IMPLICATIONS

- 5.1 Finance: As set out within the body of the report.
- 5.2 Human Resources: No direct implications arising from the recommendations in this paper.
- 5.3 Other (e.g. Legal/IT): None identified.
- 5.4 Risk: As set out within the body of the report. Managing the financial environment is captured and reported as part of the corporate risk register.

## 6 INTEGRATED IMPACT ASSESSMENT

- 6.1 **Select the statement that is appropriate to your report by placing an 'X' in the relevant box.**

An Integrated Impact Assessment screening process has been undertaken and the subject of this report does not affect the wellbeing of the community or have a significant impact on: equality and human rights; tackling socio-economic disadvantages and poverty; climate change, the

X
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environment and sustainability; the Council's role as a corporate parent; or the storage/collection of personal data.

**or**

The subject of this report has been through the Integrated Impact Assessment process and impacts have been identified as follows:

☐

Subject	Impacts identified (Yes, No or N/A)
Equality and human rights	
Socio-economic disadvantage/poverty	
Climate change, the environment and sustainability	
Corporate parenting and care-experienced young people	
Storage/collection of personal data	
Other	

*[Enter information on impacts that have been identified]*

The Integrated Impact Assessment relating to this report has been published and can be accessed via the Council's website:

[https://www.eastlothian.gov.uk/info/210602/equality\\_and\\_diversity/12014/integrated\\_impact\\_assessments](https://www.eastlothian.gov.uk/info/210602/equality_and_diversity/12014/integrated_impact_assessments)

## **7 APPENDICES**

### **7.1 Appendix 1 – High Level General Services Revenue Budget Projections 2026 – 2031 (Neutral Scenario)**

Appendix 2 – Updated Capital Programme 2025-2030 (General Services)

## **8 BACKGROUND PAPERS**

### **8.1 Report to Council, 10 December 2024: Financial and Capital Strategies 2025-30**

[https://www.eastlothian.gov.uk/meetings/meeting/17332/east\\_lothian\\_council](https://www.eastlothian.gov.uk/meetings/meeting/17332/east_lothian_council)

- 8.2 Report to Council, 18 February 2025: Budget, Council Tax and Rent Setting 2025-26 onwards

[https://www.eastlothian.gov.uk/meetings/meeting/17417/east\\_lothian\\_council](https://www.eastlothian.gov.uk/meetings/meeting/17417/east_lothian_council)

- 8.3 Report to Council, 29 April 2025: Finance Update

[https://www.eastlothian.gov.uk/meetings/meeting/17334/east\\_lothian\\_council](https://www.eastlothian.gov.uk/meetings/meeting/17334/east_lothian_council)

## 9 AUTHOR AND APPROVAL DETAILS

### Report Author(s)

<b>Name</b>	Ellie Dunnet
<b>Designation</b>	Head of Finance
<b>Tel/Email</b>	<a href="mailto:edunnet@eastlothian.gov.uk">edunnet@eastlothian.gov.uk</a>
<b>Date</b>	7 August 2025

### Head of Service Approval

<b>Name</b>	Sarah Fortune
<b>Designation</b>	Executive Director of Council Resources
<b>Confirmation that IIA and other relevant checks (e.g. finance/legal) have been completed</b>	Yes
<b>Approval Date</b>	18 August 2025



**East Lothian Council Cross Party Budget**  
**High Level Revenue Summary - General Services**  
**2026/27 - 2030/31**

	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	Total £000
<b>Base Budget</b>	<b>344,103</b>	<b>342,264</b>	<b>346,182</b>	<b>347,552</b>	<b>348,338</b>	
<b>Growth</b>						
Pay	8,047	7,377	8,253	5,443	5,536	<b>34,656</b>
Inflation & Indexation	3,048	3,389	3,462	2,347	1,900	<b>14,146</b>
Growth including RCC	4,750	6,483	5,742	5,120	7,027	<b>29,122</b>
Debt Charges	-3,398	802	292	1,139	-327	<b>-1,492</b>
<b>Total Growth</b>	<b>12,447</b>	<b>18,051</b>	<b>17,749</b>	<b>14,049</b>	<b>14,136</b>	<b>76,432</b>
<b>Funding / income changes</b>						
RSG - additional funding	0	0	0	0	0	<b>0</b>
RSG - pay award funding (Council)	-980	0	0	0	0	<b>-980</b>
RSG - pay award funding (IJB)	-119	0	0	0	0	<b>-119</b>
RSG - funding for new policy commitments (Council)	0	0	0	0	0	<b>0</b>
RSG - funding for new policy commitments (IJB)	-1,600	-1,500	-1,500	-1,000	-1,000	<b>-6,600</b>
SFT funding	73	63	6	0	0	<b>142</b>
Service Concessions Flexibility	-107	42	-98	-277	0	<b>-440</b>
<b>Total Funding Changes</b>	<b>-2,733</b>	<b>-1,395</b>	<b>-1,592</b>	<b>-1,277</b>	<b>-1,000</b>	<b>-7,997</b>
<b>FUNDING GAP COUNCIL + IJB</b>	<b>9,714</b>	<b>16,656</b>	<b>16,157</b>	<b>12,772</b>	<b>13,136</b>	<b>68,435</b>
Service Concessions - Contribution to Reserves	107	-42	98	277	0	<b>440</b>
SFT funding - Contribution to Reserves	1,595	-63	-6	0	0	<b>1,526</b>
Use of capital reserve	7,878	2,102	0	0	0	<b>9,980</b>
General Fund Balance	0	0	0	0	0	<b>0</b>
<b>Total Reserve Movements</b>	<b>9,580</b>	<b>1,997</b>	<b>92</b>	<b>277</b>	<b>0</b>	<b>11,946</b>
Existing savings plans (breakdown below)	-2,354	-2,625	-1,120	-500	0	<b>-6,599</b>
Risk to savings delivery	1,000	1,500	-1,000	-1,000	-500	<b>0</b>
Existing savings plans (IJB)	0	0	0	0	0	<b>0</b>
<b>Total Savings</b>	<b>-1,354</b>	<b>-1,125</b>	<b>-2,120</b>	<b>-1,500</b>	<b>-500</b>	<b>-6,599</b>
<b>BUDGET GAP REMAINING</b>	<b>17,940</b>	<b>17,528</b>	<b>14,129</b>	<b>11,549</b>	<b>12,636</b>	<b>73,782</b>
<b>PROPOSED ADDITIONAL SERVICE REDUCTIONS</b>	<b>-1,448</b>	<b>-20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,468</b>
Council tax - additional dwellings	-2,036	-892	-805	-808	-736	<b>-5,277</b>
Council tax rate increase y1-5 5%	-4,100	-4,396	-4,694	-5,020	-5,339	<b>-23,549</b>
<b>Total Council Tax</b>	<b>-6,136</b>	<b>-5,288</b>	<b>-5,499</b>	<b>-5,828</b>	<b>-6,075</b>	<b>-28,826</b>
<b>REVISED BUDGET GAP COUNCIL + IJB</b>	<b>10,356</b>	<b>12,220</b>	<b>8,630</b>	<b>5,721</b>	<b>6,561</b>	<b>43,488</b>

**For Information - Future Year Budget Gaps**

Percentage reduction in service budgets required to balance budget
Further council tax increase required to balance budget

3.6%	2.6%	1.7%	1.9%
13.9%	9.2%	5.7%	6.1%

## Breakdown of Planned Savings

	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	Total £000
<b>EXISTING SAVINGS (previously agreed by Council)</b>						
<u>Deliverable Savings</u>						
Finance	-14	-85	0	0	0	-99
Council Support	-90	-20	0	0	0	-110
Infrastructure	-120	0	-120	0	0	-240
Development	-80	0	0	0	0	-80
Housing	-50	-20	0	0	0	-70
Income generation	-1,000	-1,400	0	0	0	-2,400
Asset Review	-1,000	-1,100	-1,000	-500	0	-3,600
	<b>-2,354</b>	<b>-2,625</b>	<b>-1,120</b>	<b>-500</b>	<b>0</b>	<b>-6,599</b>
<u>Reprofile of Savings with Delivery Risks</u>						
Income generation	0	1,400	-1,000	0	-400	0
Asset Review	1,000	100	0	-1,000	-100	0
	<b>1,000</b>	<b>1,500</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-500</b>	<b>0</b>
Further Savings - Education	-870	0	0	0	0	-870
Further Savings - Infrastructure	-365	0	0	0	0	-365
Further Savings - Development	-63	0	0	0	0	-63
Further Savings - Communities	-35	0	0	0	0	-35
Further Savings - Housing	-30	-20	0	0	0	-50
Further Savings - Finance	-40	0	0	0	0	-40
Further Savings - Council Support	-45	0	0	0	0	-45
<b>TOTAL PROPOSED ADDITIONAL SAVINGS</b>	<b>-1,448</b>	<b>-20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,468</b>
<b>TOTAL BUDGET SAVINGS &amp; EFFICIENCIES</b>	<b>-2,802</b>	<b>-1,145</b>	<b>-2,120</b>	<b>-1,500</b>	<b>-500</b>	<b>-8,067</b>

## Reconciliation of IJB Position

### Growth

Pay	874	869	898	653	668	3,962
Inflation & indexation	2,010	1,763	1,800	1,225	1,182	7,980
Growth including RCC	1,030	987	760	653	500	3,930
<b>TOTAL</b>	<b>3,914</b>	<b>3,619</b>	<b>3,458</b>	<b>2,531</b>	<b>2,350</b>	<b>15,872</b>

### Funding / income changes

RSG - pay award funding	-119	0	0	0	0	-119
RSG - funding for new policy commitments	-1,600	-1,500	-1,500	-1,000	-1,000	-6,600
<b>TOTAL</b>	<b>-1,719</b>	<b>-1,500</b>	<b>-1,500</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-6,719</b>

<b>FUNDING GAP - IJB</b>	<b>2,195</b>	<b>2,119</b>	<b>1,958</b>	<b>1,531</b>	<b>1,350</b>	<b>9,153</b>
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Existing savings plans	0	0	0	0	0	0
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<b>FUNDING BUDGET GAP - IJB</b>	<b>2,195</b>	<b>2,119</b>	<b>1,958</b>	<b>1,531</b>	<b>1,350</b>	<b>9,153</b>
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Expenditure
Community Projects
Community Intervention
Community Facility Transformation
Community Intervention Fund - Pump Tracks
Community Public Art
Bleachingfield Centre Remodelling Works
Dunbar Conservation Area Regeneration Scheme (CARS)
North Berwick Skatepark
Support for Business
Fisherrow - spend to save project
CCTV
Town Centre Regeneration
Total Community Projects

Year 1	Year 2	Year 3	Year 4	Year 5	5 Year Total	External Funding	GCG funding/ Borrowing Requirement
2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	£000	£000	£000
242	200	200	200	200	1,042	-	1,042
100	100	100	100	100	500	-	500
580	-	-	-	-	580	(443)	137
155	-	-	-	-	155	(155)	-
18	-	-	-	-	18	(18)	-
775	12	-	-	-	787	(692)	95
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
212	-	-	-	-	212	-	212
57	-	-	-	-	57	(57)	-
2,139	312	300	300	300	3,352	(1,366)	1,986

ICT
IT Programme & Digital Opportunities
Telecare system - Analogue to Digital
Total ICT

2,200	2,300	2,325	2,300	2,300	11,425	-	11,425
121	103	106	-	-	330	-	330
2,321	2,403	2,431	2,300	2,300	11,755	-	11,755

Fleet
Amenties - Machinery & Equipment - replacement
Vehicles
Total Fleet

200	200	200	200	200	1,000	-	1,000
7,493	2,081	1,943	3,708	2,500	17,725	-	17,725
7,693	2,281	2,143	3,908	2,700	18,725	-	18,725

Open Space
Synthetic Pitch Replacement Programme
Cemeteries (Burial Grounds)
Climate Change Emergency
Coastal / Flood Protection schemes - Musselburgh
Coastal Change Management
Coastal Car Park Toilets
Core Path Plan
Harbour Walls
Nature Restoration
Polson Park
Replacement Play Equipment
Sports and Recreation LDP
- Aberlady Sports & Play Capacity
- Aubigny Sports Centre Expansion
- Blindwells Allotments
- Blindwells Cemetery Plots
- Blindwells Community Sports
- Blindwells Equipped Play
- Craighall Sports Pitches
- Craighall Allotments
- Craighall Pavilion
- Dirleton Play Equipment
- East Linton Memorial Park
- Elphinstone Pavilion
- Fa'side Path
- Gullane Pitches
- Gullane Play Equipment
- Hallhill Sports Pitch & Changing
- Heritage Implementation Plan
- Letham Path Network
- Letham Pavillon
- Longniddry-Haddington Path Improvements
- Macmerry Sports Facilities
- Wallyford 4 Team Pavilion
- Whitecraig Pavilion & Pitch
- Windygoul Sports Pitch
- Windygoul Allotments
Street litter bin replacement
Waste - New Bins
Waste - Machinery & Equipment - replacement
Total Open Space

318	700	260	1,075	-	2,353	-	2,353
584	500	400	500	-	1,984	-	1,984
800	-	-	-	-	800	(800)	-
1,714	2,011	4,741	21,334	34,494	64,293	(42,311)	21,982
166	-	-	-	-	166	-	166
44	-	-	-	-	44	(42)	2
200	-	50	50	50	350	-	350
250	-	-	-	-	250	-	250
120	-	-	-	-	120	-	120
160	-	-	-	-	160	-	160
545	100	100	100	100	945	-	945
2,654	944	-	424	2,583	6,606	(5,701)	905
-	-	-	-	-	-	-	-
36	220	-	-	-	256	(256)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,333	2,333	(2,333)	-
-	-	-	424	-	424	(424)	-
-	-	-	-	-	-	-	-
-	-	-	-	23	23	(23)	-
773	611	-	-	-	1,384	(1,384)	-
-	23	-	-	-	23	(23)	-
66	-	-	-	-	66	(66)	-
-	32	-	-	-	32	(32)	-
161	-	-	-	-	161	(161)	-
166	-	-	-	-	166	(166)	-
41	-	-	-	-	41	(41)	-
211	-	-	-	-	211	(211)	-
1	5	-	-	-	6	(6)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
13	-	-	-	-	13	(13)	-
108	-	-	-	-	108	(108)	-
905	-	-	-	-	905	-	905
-	-	-	-	227	227	(227)	-
165	53	-	-	-	219	(219)	-
8	-	-	-	-	8	(8)	-
40	40	40	40	40	200	-	200
150	150	150	150	150	750	-	750
50	50	50	50	50	250	-	250
7,796	4,495	5,791	23,723	37,466	79,271	(48,855)	30,417

Roads, Lighting and related assets
Cycling Walking Safer Streets
Parking Improvements
Roads
Roads - Structures, Traffic Signals, Area Partnerships
Roads - Carriageways
Roads - Footways
Roads - Street Lighting
Roads - externally funded projects
Total Roads, Lighting and related assets

739	-	-	-	-	739	(7)	732
1,181	851	5,000	-	-	7,032	-	7,032
-	-	-	-	-	-	-	-
620	620	620	620	620	3,100	-	3,100
4,480	3,480	3,480	3,480	3,480	18,400	-	18,400
950	950	950	950	950	4,750	-	4,750
450	450	450	450	450	2,250	-	2,250
3,459	3,270	280	100	100	7,209	(7,209)	-
11,880	9,621	10,780	5,600	5,600	43,481	(7,216)	36,265

	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year Total	External Funding	GCG funding/ Borrowing Requirement
	2025/26	2026/27	2027/28	2028/29	2029/30			
	£000	£000	£000	£000	£000	£000	£000	£000
Expenditure								
Property - Education								
Aberlady Primary - extension	4,245	75	-	-	-	4,320	(959)	3,362
Blindwells Primary - new school	4,610	326	-	-	-	4,936	(1,815)	3,121
Craighall Primary - New School	4,930	319	-	-	-	5,249	(1,933)	3,316
East Linton Primary - Toilet upgrades	574	-	-	-	-	574	(574)	-
Elphinstone Primary - extension	626	1,469	-	-	-	2,095	(2,095)	-
Free School Meals Expansion to P6-7	83	-	-	-	-	83	-	83
Haddington Primary School (Lower Campus)	47	-	-	-	-	47	(47)	-
Kingsmeadow Primary (Upper Campus)	26	-	-	-	-	26	(26)	-
Kingsmeadow Primary - Toilet Reinstatement	-	-	103	-	-	103	(103)	-
Knox Academy Extension (subject to approval)	394	110	120	2,050	-	2,674	(2,674)	-
Law Primary - extension including Early Learning and 1140	25	-	-	-	-	25	-	25
Letham Primary - New School	47	-	-	-	-	47	-	47
Letham Primary - Extension	55	318	3,336	963	-	4,672	(4,672)	-
Longniddry Primary - extension	507	1,500	1,500	500	-	4,007	(4,007)	-
Macmerry Primary - extension	-	521	502	-	-	1,023	(1,023)	-
North Berwick High School - Extension	143	-	-	-	-	143	-	143
Ormiston Primary - extension	100	-	-	-	-	100	-	100
Pencaitland PS	-	90	693	-	-	783	(783)	-
Pinkie St Peter's Primary - extension including Early Learning and 1140	278	-	-	-	-	278	-	278
Pinkie St Peter's Primary - sports hall extension	6	484	-	-	-	490	-	490
Preston Lodge High School - extension (phase 1)	-	1,000	-	-	-	1,000	(1,000)	-
Ross High School - extension	13	-	-	-	-	13	(13)	-
School Estate - Curriculum Upgrades	267	-	-	-	-	267	-	267
School Estate - Security Upgrades	232	216	212	144	56	860	-	860
School Estate - ASN Provision Space	140	-	-	-	-	140	-	140
St Gabriel's Primary - extension including Early Learning and 1140	-	-	-	-	-	-	-	-
Wallyford Primary - New School	120	-	-	-	-	120	-	120
Wallyford Learning Campus	766	-	-	-	-	766	-	766
Whitecraig Primary - new school including Early Learning and 1140	9,427	278	-	-	-	9,705	(1,656)	8,049
Windygoul Primary - Early learning and 1140 extension	156	-	-	-	-	156	(156)	-
Windygoul Primary - extension	-	104	540	-	-	644	(644)	-
Total Property - Education	27,817	6,810	7,006	3,657	56	45,347	(24,180)	21,167
Property - Other								
Accelerating Growth	6,188	-	-	-	-	6,188	(4,942)	1,246
- Cockenzie	2,369	-	-	-	-	2,369	(2,369)	-
- Levelling Up Project Cockenzie	3,819	-	-	-	-	3,819	(2,573)	1,246
- Blindwells	-	-	-	-	-	-	-	-
- Innovation Hub	-	-	-	-	-	-	-	-
- A1/QMU Junction	-	-	-	-	-	-	-	-
Future of Brunton Theatre	-	-	-	-	-	-	-	-
Court Accommodation	22	-	-	-	-	22	-	22
Demolitions - various sites	369	-	-	-	-	369	-	369
Eskmill Fire Station Demolition	17	-	-	-	-	17	-	17
Relocation of Haddington Day Centre to Tynebank Resource Centre	1,325	434	-	-	-	1,759	-	1,759
Loch Centre Tranent - Major Refurbishment Works	970	4,614	64	-	-	5,647	-	5,647
Demolition of TUs	84	-	-	-	-	84	-	84
New ways of working Programme	1,368	100	-	-	-	1,468	-	1,468
Prestongrange Museum	2,096	-	-	-	-	2,096	(511)	1,586
Property Renewals	3,112	2,000	2,000	2,000	2,000	11,112	-	11,112
Regeneration opportunities - property acquisition	-	-	-	-	-	-	-	-
Replacement Childrens House	1,101	701	27	-	-	1,830	-	1,830
Sports Centres	240	240	240	240	240	1,200	-	1,200
Whitecraig Community Centre	-	-	-	-	-	-	-	-
Total Property - Other	16,893	8,089	2,331	2,240	2,240	31,793	(5,453)	26,340
Projects subject to external funding								
River Tyne / Haddington Flood Protection scheme	-	-	-	-	-	-	300	300
Future Theatre Provision	-	-	-	-	-	-	-	-
Town Centre Investment - Tranent & Western Villages	-	-	-	-	-	-	-	-
Total Projects subject to external funding	-	-	-	-	-	-	300	300
PPP Projects	-	-	-	-	-	-	-	-
Capital Plan Fees	2,650	2,730	2,812	2,896	2,983	14,070	-	14,070
Total Gross Expenditure	79,189	36,741	33,593	44,624	53,645	247,793		161,024
Income								
Developer contributions	(9,984)	(6,613)	(6,254)	(3,937)	(2,583)	(29,372)		
1140 grant income	(173)	(104)	(540)	-	-	(817)		
Town centre regeneration grant income	(427)	-	-	-	-	(427)		
Flood scheme general capital grant	14,134	3,071	(3,648)	(13,699)	(20,979)	(21,121)		
Other	(8,239)	(3,584)	(460)	(5,110)	(9,270)	(26,663)		
Capital receipts	(7,369)	(5,000)	(5,000)	(2,000)	(4,000)	(23,369)		
Scottish Government general capital grant	(1,282)	(2,338)	(6,014)	(7,211)	(7,211)	(24,056)		
Total Income	(13,340)	(14,568)	(21,916)	(31,957)	(44,043)	(125,825)	(86,769)	(39,056)
Net Borrowing Requirement	65,849	22,172	11,677	12,667	9,603	121,968		121,968