

<b>COMMITTEE:</b>	Cabinet
<b>MEETING DATE:</b>	20 January 2026
<b>BY:</b>	Depute Chief Executive – Resources & Economy
<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 provide an update on the development of general services and housing revenue account budgets for 2026-27 onwards.

## **2 RECOMMENDATIONS**

Members are recommended to:

- 2.1 Note the updated high level General Services Revenue budget model (2026-27 to 2030-31) and updated budget gap shown at Appendix 1.
- 2.2 Note the updated on the development of the General Services Capital Programme (2026-27 to 2030-31).
- 2.3 Note the update on the development of the Housing Revenue Account budget.
- 2.4 Note the next steps to develop budgets for 2026-27 onwards outlined at paragraphs 3.19 to 3.20.

## **3 BACKGROUND**

- 3.1 Council will meet on 24 February 2026 to consider the capital and revenue budgets for general services and housing revenue account, including the setting of council tax and rents for the next year.
- 3.2 In preparation for this, Council has been presented with a series of reports during 2025 concerning budget development and the financial challenges facing the Council over the medium term.

- 3.3 At the time of drafting this report, the provisional local government finance settlement for 2026-27 is not available; therefore, at this stage the funding assumptions reflected within Appendix 1 remain in draft and subject to both favourable and adverse variation. All planning scenarios assume that there will be a residual revenue budget gap to close either through savings, or additional council tax increases. Alongside this, a significant shortfall in capital funding to meet the costs of infrastructure investment is anticipated, with the gap being met through external borrowing.
- 3.4 The Office for Budget Responsibility's latest Economic and Fiscal Outlook was published on 26 November (see [https://obr.uk/docs/dlm\\_uploads/OBR\\_Economic\\_and\\_fiscal\\_outlook\\_November\\_2025-8364713188.pdf](https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_November_2025-8364713188.pdf)) alongside the Chancellor of the Exchequer's Autumn Budget. Scottish Government's budget is anticipated on 13 January, along with the provisional local government finance settlement. If possible, a verbal update concerning this will be provided at the meeting on 20 January.
- 3.5 Budget consultation has taken place during October and November and the results of this will be published in the Members' Library and used to inform the development of budget proposals for 2026-27 and beyond.

#### General Services Revenue

- 3.6 An updated version of the high-level revenue budget projections covering the next five years 2026-27 to 2030-31 is attached at **Appendix 1**.
- 3.7 This incorporates savings measures totalling £10.84 million to reduce the budget gap, which Council has approved previously as part of reports considered in December, August and February (as part of the current five-year budget plan) and assumed annual council tax increases of 5%.
- 3.8 Other key assumptions are as follows:
- Delivery of savings totalling £1.42 million within Council IJB services in 2026-27.
  - Funding uplifts for 2026-27 aligned to agreed pay settlements over 3% and for the real living wage uplift in social care, with flat cash settlements across all other areas.
  - Pay increases of 3.5% in 2026-27, 3% in 2027-28 and 2028-29 and 2% in the subsequent two years.
  - Transfer of funding to the IJB to meet the costs of 2026-27 pay award.
  - Annual council tax increases of 5%.
- 3.9 Alongside this, the projections reflect additional investment required to meet emerging cost pressures across the following areas:
- School estate expansion and demographic growth across Education and Children's Services – £7.3m, including £2.3m to meet growing demand for inclusion and wellbeing services.

- Non-pay related service pressures totalling £3m within Health and Social Care Services.
  - £2.8m to meet anticipated new policy commitments.
- 3.10 The resulting five-year budget gap after taking account of approved savings and 5% annual council tax increases is £37.024 million. For the coming year, the residual gap currently stands at £6.87 million. To close this gap and balance the budget without funding uplifts or further budget reductions would require council tax increases in excess of 13% next year, equivalent to £4.12 weekly increases for an average property. To keep council tax increases at 5% would require further reductions of 2% to service budgets in 2026-27, in addition to existing planned savings measures.
- 3.11 These projections will be updated upon receipt of the draft local government finance settlement, but it remains highly likely that this will not be sufficient to close the financial gap and some difficult choices remain. The magnitude of the continued pressures being faced by Scottish councils, with constrained funding and increasing demand for services, should not be underestimated. The Council continues to raise awareness through both official and political channels with Scottish Government and COSLA to highlight the challenges faced by all councils, and specifically East Lothian as a growing area, where these collective demands as well as increased costs of providing for our growing population are simply not being met through sufficient funding uplifts. This has resulted in East Lothian receiving one of the lowest levels of Scottish Government funding per person, with council tax growth covering only a quarter of the additional costs of demographic change, resulting in the significant budget gaps outlined above.

#### General Services Capital

- 3.12 The Council faces significant demands for infrastructure investment, driven primarily housing growth, an ageing property estate, the climate emergency and supporting regeneration.
- 3.13 Council approved the Capital Strategy 2026-31 in December 2025. This sets the following criteria for considering proposals for inclusion the capital programme in the context of affordability challenges facing the council:
- The expenditure is required for statutory reasons, for example to ensure that an asset meets any health and safety requirements;
  - A self-funding scheme which fits in with strategic planning priority outcomes and resource requirements;
  - A priority scheme with significant external funding;
  - A scheme directly focused on Council Plan priority outcomes;
  - A scheme which will support the delivery of recurring savings within the Councils revenue budget (investment to save);

- A scheme which will deliver significant social and health benefits within the housing provision.
- 3.14 There remains a growing range of competing infrastructure demands being faced across the Council and within our communities. These demands must be balanced within the significant affordability challenges being faced which arise from limited national infrastructure funding, increasing debt financing costs and the revenue costs associated with new investment. As such the capital plan and priorities seeks to balance infrastructure demands across the next 5 years within these affordability parameters. Given this, it must be recognised that these plans will not be able to reflect the full extent of capital expenditure demands facing the Council, and therefore difficult choices remain to balance these collective demands and priorities. Current national infrastructure funding is simply not sufficient to meet these collective demands.
- 3.15 The capital plan will be updated to reflect funding implications set out within the draft local government finance settlement; however, this will undoubtedly result in the need for increased borrowing. This presents significant affordability challenges for the Council in the context of current debt levels.

#### Housing Revenue Account

- 3.16 Housing tenants were consulted on future rent levels between 1 October and 14 November 2025. Tenants were invited to provide feedback on a proposed rent increase of 7% as well as two other options for higher increases which would bring about more opportunity to invest in the modernisation of existing stock and provision of new affordable homes.
- 3.17 The detailed results are published in the Members' Library and will inform Housing Rent Proposals for 2026/27.
- 3.18 In line with the budget measures approved as part of the 2025-26 budget, work to progress the 30-year HRA business plan is underway and this will be presented to Members for approval during 2026. Governance arrangements were reviewed and a cross-party housing group has been established.

#### Next steps

- 3.19 Council approved the below process for budget development at the meeting on 9 December 2025, with delegated authority to the Chief Financial Officer and Monitoring Officer, in discussion with Political Group Leaders to make any necessary changes to these timelines.

**23 January 2026** – target date to share emerging headlines from the local government finance settlement with elected members.

**27 January 2026** – budget briefing for members.

**30 January 2026** – target date to share updated budget projections with members based on draft settlement (these will be shared earlier if possible).

**4 February 2026** – cross-party budget group meeting, members invited to share draft budget proposals.

**12 February 2026** – final date for Members to submit budget proposals.

**17 February 2026** – papers published for Council meeting.

**24 February 2026** – Council budget meeting.

- 3.20 At this stage, no changes are recommended and the cross-party budget group will continue to meet to consider budget proposals in the run up to the budget meeting on 24 February.

## **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: No direct financial implications arise from the submission of this consultation response. Changes to the council tax system could have significant financial implications for the council, but it is yet possible to quantify these.
- 5.2 Human Resources: No direct personnel implications.
- 5.3 Other (e.g. Legal/IT): None
- 5.4 Risk: None

## **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:

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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	

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: Draft high level general services revenue projections 2026-31

## **8 BACKGROUND PAPERS**

- 8.1 Council – 26 August 2025 – Budget Development 2026/27 onwards
- 8.2 Council – 9 December 2025 – Financial and Capital Strategies 2026-31

## 9 AUTHOR AND APPROVAL DETAILS

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<b>Date</b>	5 January 2026

### Head of Service Approval

<b>Name</b>	Sarah Fortune
<b>Designation</b>	Depute Chief Executive – Resources and Economy
<b>Confirmation that IIA and other relevant checks (e.g. finance/legal) have been completed</b>	Confirmed
<b>Approval Date</b>	12 January 2026

**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>346,929</b>	<b>350,905</b>	<b>353,628</b>	<b>358,365</b>	<b>361,283</b>	
<b>Growth</b>						
Pay	8,100	7,153	7,040	4,831	4,905	32,029
Inflation & Indexation	2,683	3,138	3,469	2,416	2,437	14,143
Growth including RCC	4,849	7,831	7,449	4,227	6,068	30,424
Debt Charges	-4,486	810	318	1,156	329	-1,873
<b>Total Growth</b>	<b>11,146</b>	<b>18,932</b>	<b>18,276</b>	<b>12,630</b>	<b>13,739</b>	<b>74,723</b>
<b>Funding / income changes</b>						
RSG - additional funding	0	0	0	0	0	0
RSG - reduction in loan charge support	0	1,222	75	75	75	1,447
RSG - pay award funding (Council)	-980	-309	0	0	0	-1,289
RSG - pay award funding (IJB)	-119	0	0	0	0	-119
RSG - funding for new policy commitments (Council)	-472	-236	-238	-149	-150	-1,245
RSG - funding for new policy commitments (IJB)	-1,600	-1,500	-1,500	-1,000	-1,000	-6,600
SFT funding	73	63	6	0	0	142
Service Concessions Flexibility	-107	42	-98	-277	-146	-586
<b>Total Funding Changes</b>	<b>-3,205</b>	<b>-718</b>	<b>-1,755</b>	<b>-1,351</b>	<b>-1,221</b>	<b>-8,250</b>
<b>FUNDING GAP COUNCIL + IJB</b>	<b>7,941</b>	<b>18,214</b>	<b>16,521</b>	<b>11,279</b>	<b>12,518</b>	<b>66,473</b>
Service Concessions - Contribution to Reserves	107	-42	98	277	146	586
SFT funding - Contribution to Reserves	1,595	-63	-6	0	0	1,526
Use of capital reserve	7,878	2,102	0	0	0	9,980
General Fund Balance	0	0	0	0	0	0
<b>Total Reserve Movements</b>	<b>9,580</b>	<b>1,997</b>	<b>92</b>	<b>277</b>	<b>146</b>	<b>12,092</b>
Existing savings plans (breakdown below)	-2,354	-2,625	-1,120	-500	0	-6,599
Risk to savings delivery	2,080	500	-1,000	-1,000	-500	80
Assumed savings plans (IJB)	-1,420	0	0	0	0	-1,420
<b>Total Savings</b>	<b>-1,694</b>	<b>-2,125</b>	<b>-2,120</b>	<b>-1,500</b>	<b>-500</b>	<b>-7,939</b>
<b>BUDGET GAP REMAINING</b>	<b>15,827</b>	<b>18,086</b>	<b>14,493</b>	<b>10,056</b>	<b>12,164</b>	<b>70,626</b>
<b>PROPOSED ADDITIONAL SERVICE REDUCTIONS</b>	<b>-2,911</b>	<b>-440</b>	<b>-160</b>	<b>-560</b>	<b>-250</b>	<b>-4,321</b>
Council tax - additional dwellings	-1,952	-1,331	-1,065	-714	-572	-5,634
Council tax rate increase y1-5 5%	-4,097	-4,433	-4,759	-5,034	-5,324	-23,647
<b>Total Council Tax</b>	<b>-6,049</b>	<b>-5,764</b>	<b>-5,824</b>	<b>-5,748</b>	<b>-5,896</b>	<b>-29,281</b>
<b>REVISED BUDGET GAP COUNCIL + IJB</b>	<b>6,867</b>	<b>11,882</b>	<b>8,509</b>	<b>3,748</b>	<b>6,018</b>	<b>37,024</b>
<b>For Information - Future Year Budget Gaps</b>						
Percentage reduction in service budgets required to balance budget	2.0%	3.4%	2.4%	1.0%	1.7%	



## 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	1,000	400	-1,000	0	-400	0
Development	80	0	0	0	0	80
Asset Review	1,000	100	0	-1,000	-100	0
	<b>2,080</b>	<b>500</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-500</b>	<b>80</b>
Further Savings - Children's	-250	-250	-250	-550	-250	-1,550
Further Savings - Education	-1,336	-120	0	0	0	-1,456
Further Savings - Infrastructure	-949	0	0	0	0	-949
Further Savings - Development	-63	0	0	0	0	-63
Further Savings - Communities	-35	0	0	0	0	-35
Further Savings - Housing	-193	-70	90	-10	0	-183
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>-2,911</b>	<b>-440</b>	<b>-160</b>	<b>-560</b>	<b>-250</b>	<b>-4,321</b>
<b>TOTAL BUDGET SAVINGS &amp; EFFICIENCIES</b>	<b>-3,185</b>	<b>-2,565</b>	<b>-2,280</b>	<b>-2,060</b>	<b>-750</b>	<b>-10,840</b>

## Reconciliation of IJB Position

### Growth

Pay	874	769	792	544	555	<b>3,534</b>
Inflation & indexation	1,990	1,782	1,819	1,222	1,226	<b>8,039</b>
Growth including RCC	1,030	987	760	653	500	<b>3,930</b>
<b>TOTAL</b>	<b>3,894</b>	<b>3,538</b>	<b>3,371</b>	<b>2,419</b>	<b>2,281</b>	<b>15,503</b>

### Funding / income changes

RSG - pay award funding	-119	0	0	0	0	-119
Additional Investment from East Lothian Council - Pay	-755	0	0	0	0	-755
RSG - funding for new policy commitments	-1,600	-1,500	-1,500	-1,000	-1,000	-6,600
<b>TOTAL</b>	<b>-2,474</b>	<b>-1,500</b>	<b>-1,500</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-7,474</b>

<b>FUNDING GAP - IJB</b>	<b>1,420</b>	<b>2,038</b>	<b>1,871</b>	<b>1,419</b>	<b>1,281</b>	<b>8,029</b>
Assumed IJB Efficiency Savings	-1,420	0	0	0	0	-1,420
<b>FUNDING BUDGET GAP - IJB</b>	<b>0</b>	<b>2,038</b>	<b>1,871</b>	<b>1,419</b>	<b>1,281</b>	<b>6,609</b>