COMMITTEE:	East Lothian Council
MEETING DATE:	24 February 2026
BY:	Depute Chief Executive – Resources & Economy
REPORT TITLE:	Budget Development 2026-27 Onwards
REPORT STATUS:	Public

1 PURPOSE OF REPORT

1.1 To provide contextual information to support budget setting for 2026-27 onwards, including an overview of the national funding settlement for local government, and the implications of this for East Lothian.

1.2 To set out the next steps towards delivering the Council's Financial Strategy 2026-30.

2 RECOMMENDATIONS

Members are recommended to:

2.1 Note the local and wider economic context within which budgets have been developed, including the factors which have contributed to the funding gap.

2.2 Note the content of the 2026-27 local government finance settlement and the funding implications for East Lothian Council.

2.3 Note the draft 2026-27 Integration Joint Board (IJB) funding offer letter attached at Appendix 1.

2.4 Note the statement on robustness of the budget, adequacy of reserves and key budget risks included at Appendix 2.

2.5 Note the indicative timetable and next steps for developing budget projections and closing the budget gap for 2027-28 onwards, as set out at paragraphs 3.16 to 3.20.

3 BACKGROUND

3.1 This report sets out the context for development of budget proposals for 2026-27 onwards for general services and Housing Revenue Account (HRA) revenue and capital, including the setting of council tax and rent levels. Budget development continues to be influenced by significant ongoing demand and cost pressures arising from East Lothian's growing population, alongside wider economic challenges facing the whole of the public sector.

3.2 Growth, in particular, has continued to present financial challenges for the Council in recent years. As one of the fastest growing areas in Scotland over the past two decades, the cumulative impact of growth has resulted in a growing gap between expenditure demands and available resources. Alongside the opportunities this presents for East Lothian to contribute to the national economy and housing supply targets, if the costs of providing services and infrastructure for the county's growing population cannot be met through proportionate uplifts in external funding, this will become increasingly difficult for the Council to sustain over the medium term. These pressures apply to both revenue and capital budgets and remain the subject of ongoing dialogue with the Scottish and UK Government.

3.3 In December 2025, Council approved the Financial and Capital Strategies for the period 2026-27 to 2030-31, which set out how the Council will seek to manage its resources during this period to achieve financial sustainability in the context of these significant challenges and risks.

Draft Settlement Overview & Updates

3.4 Scottish Government's budget for the 2026-27 financial year was announced on 13 January 2026, along with the draft local government finance settlement. Key headlines are set out below. It should be noted that this detail will remain provisional and subject to change until the settlement is finalised through the parliamentary process:

- The budget announced a funding package of £15 billion for local government in 2026-27, indicating a cash uplift of £591.8 million.
- A significant proportion, £356.9 million of the announced cash uplift is already committed, leaving £234.9 million total uncommitted additional funding nationally. This equates to a cash uplift of 1.6%.
- This represents a shortfall of £1 billion on COSLA's ask for £16 billion revenue including £750 million for social care.
- The budget provides general capital grant totalling £494 million to local government, which is a significant shortfall on COSLA's ask for £844 million.

- £20 million climate emergency £40 million nature restoration capital funding has also been announced but remains undistributed at this stage.

- The overall capital allocation from the Scottish Government has fallen, decreasing by 14.2% in real terms compared to 2025-26.

- The Affordable Housing Supply Programme will see a capital uplift of £35 million next year, but this does not reinstate spending power in this area in real terms.

- A spending review was published alongside the budget, and points to increased constraints in local government funding in 2027-28 and 2028-29.

- As part of the stage one budget debate, the First Minister has announced £20 million funding for social care for use towards matters such as funding the real living wage for adult and child care services.

3.5 The parliamentary process for finalising the Local Government Finance Order is underway and expected to conclude on 26 February 2026. Any further changes to the settlement which arise over the coming weeks will be reported to a future Council meeting. In the event that additional un-ringfenced funding is made available through this process, it is recommended that this should be prioritised to offset budget risks identified and reduce planned use of capital reserves in 2026-27.

3.6 The impact of the settlement announcement at a local level is set out below:

- Revenue funding uplift of £7.378 million, of which £3.668 million is tied to new or existing policy commitments.

- This represents new funding of £3.7 million which reduces the funding gap identified for 2026-27.

- East Lothian Council's contribution to the floor has increased by £1.7 million to £3.8 million.

- A number of funding streams remain undistributed at this stage; therefore, uncertainty remains within some of the estimated shares included within the budget estimates.

- Within the capital settlement, a significant proportion of funding remains undistributed at this stage, and we continue to await detail around anticipated material changes to flood scheme funding and the impact of this on the draft capital plan.

- Capital expenditure plans supported by climate emergency and nature restoration capital funding will be included within the programme once the Council's share of these funding streams has been confirmed.

3.7 Further detail is awaited concerning the additional £20 million announced on 12 February 2026 for social care to support the real living wage uplift and this is not yet reflected within the draft budget estimates. Once further clarity is provided on the allocation of this funding, a proportionate share will be transferred to the IJB and an update will be provided to Council through quarterly monitoring reports.

Integrated Joint Board (IJB)

3.8 Following approval of the Council's budget, a letter will be issued to the IJB with notification of the anticipated allocation of funding from the Council for 2026-27. The draft letter is attached at Appendix 1 to this report. This reflects the draft Administration/Cross-party budget proposals and remains subject to change depending on the outcome of the budget meeting. The letter shows the existing (2025-26) budget allocation for the IJB, uplifted by:

- £2.07 million additional funding notified through the draft settlement;
- £0.874 million further budget uplift to support pay, inflationary and demographic pressures; and
- £0.35 million further uplift to partially offset reductions in funding allocations to the IJB following redistribution of adult social care funding.

3.9 The letter also confirms that a proportionate share of the additional £20 million funding for social care and real living wage uplifts will be passed to the IJB once the allocations are known.

3.10 This will leave the IJB with a residual funding gap on Council services of £0.6 million. It is anticipated that this gap will reduce further once the proportionate share of the additional £20 million funding referenced in paragraph 3.9 above has been reflected. Efficiencies have been identified to close this gap which will be subject to the approval of the IJB at their budget meeting in March. If the IJB is able to deliver these savings it is expected that this will close the budget gap in relation to adult social care. However, the overall IJB budgets may still reflect a funding gap linked to NHS services.

3.11 The IJB will also receive a letter from NHS Lothian, setting out the 2026-27 budget allocation from its other key funding partner. Together, these letters will be used to set the IJB budget for 2026-27 which will be considered at the board meeting in March. Effective partnership working across the Council, IJB and NHS Lothian will be key to ensuring the development of sustainable budgets over the medium term.

Statement of robustness of estimates and adequacy of reserves

3.12 The Council's section 95 officer (Chief Finance Officer) is the statutory "proper officer" responsible for the administration and governance of the Council's financial affairs, as required by the Local Government (Scotland) Act 1973. This includes ensuring financial systems, controls, and processes are robust. This role is held by the Depute Chief Executive – Resources and Economy. A statement setting out the s.95 officer's opinion on the robustness of estimates reflected within the proposed budgets and adequacy of reserves is attached at Appendix 2 to this report.

3.13 Although this is not a statutory requirement in Scotland, CIPFA's Financial Management Code which the Council has adopted does include a specific requirement that this is included as part of the budget report, and this was also a specific recommendation arising from the internal audit of financial sustainability undertaken in 2024. Subsequently, Audit Scotland have reiterated the need for this assessment to be undertaken on an ongoing basis within their recommendations following the 2024-25 audit.

3.14 The statement includes a summary of the factors that have been taken into account in assessing the robustness of budget estimates, key risks, general balances and earmarked reserves as well as consideration of the housing revenue account. It concludes that while the budget proposals for the forthcoming financial year are considered to be competent, the funding gap for the period beyond this remains significant and presents a risk to the Council's capacity to set balanced budgets in future years. It also highlights that unallocated general balances, which the Council holds to offset the impact of unforeseen risks and emergencies remains low relative to the overall risk environment.

3.15 This is intended to support consideration by Council of the budget proposals, and Council is asked to note the statement as part of the recommendations of this report.

Next Steps

3.16 As noted above, the proposed budgets are based on the draft local government finance settlement and any changes to the projected grant levels will be reported to Council. The stage one debate took place on 8 February and the remaining stages are as follows:

- **Stage 2** – 19 February 2026
- **Stage 3** – 26 February 2026
- **Local Government Finance Order** – end of February 2026

3.17 The Council continues to face a significant funding gap over the medium term, and it is essential that work to close this and ensure that balanced budgets can be set in the years from 2027-28 onwards resumes as early as possible. With this in mind, officers across all service areas are being asked to progress further work to develop a range of options which will meet the funding gap, aligned to levers set out within the financial strategy, and Council Plan objectives. This work will be presented to the cross-party budget working group and details will be shared through future Council meetings.

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

Date	Meeting	Action
June 2026	Council	Provisional outturn report 2025-26.
August 2026	Council	To consider the financial landscape and context for budget setting for 2027-28 onwards, including an update on progress with discussions aligned to closing the funding gap.
August 2026	Council	Q1 financial update report, to include an overview of progress towards delivering agreed savings for 2026-27.
December 2026	Council	Q2 financial update report, to include an overview of progress towards delivering agreed savings for 2026-27.
December 2026	Council	Consider the financial and capital strategies for 2027-28 onwards.
January 2027	Cabinet	Budget development update, including implications of the draft local government finance settlement.
February 2027	Council	Council budget meeting to agree budgets for 2027-28 onwards, and set council tax and rent levels for the forthcoming financial year.

Table 1: Budget development next steps

3.19 In line with the budget development framework, the cross-party budget group has continued to meet throughout the last year to consider matters related to budget, including options to reduce spending across all service areas.

3.20 It is assumed that the cross-party budget group will continue to meet on a regular basis throughout the year, to support the development of proposals to balance the budget from 2027-28 and beyond in line with

Council's previous commitment to this. Although not a forum for decision making, this approach is intended to support the budget development process by ensuring that members from all groups are sighted on the detail and impact of changes linked to budget decisions and to act as an informal forum for discussion. Audit Scotland's recent Annual Audit Report also highlights the importance of cross-party engagement.

4 POLICY IMPLICATIONS

4.1 The Council's budget and financial strategies should be a representation of the Council Plan and strategic priorities in financial terms. The proposals within this report are intended to support the effective delivery of policy objectives as far as possible. Without significant additional funding over the medium term there is a risk to that the Council may not have sufficient resources to deliver on all of the policy commitments within the Council Plan.

5 RESOURCE AND OTHER IMPLICATIONS

5.1 Finance: as described within the report and supporting appendices.

5.2 Human Resources: N/A

5.3 Other (e.g. Legal/IT): N/A

5.4 Risk: As detailed within the report and appendix 2.

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 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:	X

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

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

7 APPENDICES

7.1 Appendix 1 – Draft 2026-27 IJB funding offer letter

7.2 Appendix 2 – Statement on the robustness of estimates and adequacy of reserves

8 BACKGROUND PAPERS

8.1 Members Library Service February 2026 – Budget Consultation 2026-27

8.2 Cabinet – 20 January 2026 – Budget Development 2026-27 onwards

8.3 Council – 9 December 2025 – Financial and Capital Strategies 2026-31

8.4 Council – 26 August 2025 – Budget Development 2026-27 onwards

9 AUTHOR AND APPROVAL DETAILS

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Name	Sarah Fortune
Designation	Depute Chief Executive – Resources & Economy
Confirmation that IIA and other relevant checks (e.g. finance/legal) have been completed	Yes
Approval Date	16 February 2026

Appendix 1

24 February 2026

Mike Porteous
Chief Finance Officer
East Lothian Integrated Joint Board

East Lothian Council

John Muir House
Haddington
East Lothian
EH41 3HA
Tel 01620 827827

Dear Mike,

Financial resource proposal from East Lothian Council to East Lothian Integration Joint Board – 2026-27

This letter sets out the level of financial resources that will be delegated by the Council to the IJB in 2026-27 and is aligned to the Council budget to be approved on 24 February 2026.

2026-27 Financial Resource Proposal

The budget proposal to the IJB has been set in the context of the total resources available to the Council during 2026-27. The financial environment remains challenging, and the Council continues to balance a growing range of cumulative risks and financial pressures, including managing increased demand arising from a growing population. I am also aware that many of these cost pressures are equally being faced by the IJB. The resource proposal agreed by the Council for 2026-27 has been set in the context of managing these collective challenges faced by both organisations.

The 2026-27 resource proposal includes:

- Total additional funding of £3.294 million (4%) which is in addition to the 2025-26 baseline budget. This funding offer includes:
    - £2.189 million provided within the national funding settlement to support a range of national policy commitments, including £0.119m funding to support the 2026-27 pay award.
    - £1.105 million additional funding provided by the Council including:
        - £755,000 to support the full cost aligned to the approved 2026-27 pay uplift
        - £350,000 to support inflationary and demographic pressures as well as funding to support the 2025-26 recurring baseline pressure.

- Taking these factors into consideration the financial resource that would be made available to the IJB for 2026-27 is now £84.824 million. The breakdown of this funding is set out in more detail within the table below.

Appendix 1

2026-27 Financial Resource offer to IJB

2025-26 Adult Wellbeing Budget	£81.530m
ELC Additional Investment - pay	£0.755m
ELC Additional Investment	£0.350m
TOTAL - Opening Baseline	**£82.635m**
New National Investment	
GRG - funding changes	£2.070m
GRG - pay award funding	£0.119m
Share of additional £20m for Social Care (TBC)	-
TOTAL - New National Investment	**£2.189m**
2025-26 Total IJB Financial Resource	**£84.824m**

As you know, the national Scottish Government budget is not expected to be formally approved until the end of February 2026, and as such the figures will remain in draft until this is finalised. In addition, an additional £20m of funding has been announced for Social Care, any share due to East Lothian will be updated when available.

The budget offer to the IJB sits alongside wider support including capital investment provided by the Council. This includes analogue to digital rollout and for telecare and the delivery of the new core and cluster units at Fa'side, comprising 13 specialist homes that have enabled adults with learning disabilities to return to East Lothian from external placements. These wider commitments reflect the Council's dedication to integrated service delivery and improved outcomes for East Lothian residents.

It is expected that the IJB will develop sustainable and deliverable financial plans for 2026-27, and that the Council delegated functions will operate within the total available resources made available. Should any pressures arise during 2026-27, aligned to the Scheme of Integration, it is expected that appropriate recovery action is taken by the IJB to bring financial plans back into financial balance, and details of emerging financial risks should be reported to be as early as possible.

Following the IJB 2026-27 budget considerations, it is requested that the Director of Health and Social Care Partnership bring back a full and detailed report to the next appropriate Council meeting setting out the outcome of the IJB budget and implications for Council delegated services. This will also include details around how the planned additional investment will be used.

I remain acutely aware that there remain significant and on-going financial and demand pressures facing East Lothian IJB to support the delivery of its delegated functions, and much of these pressures are also being experienced nationally. I can

Appendix 1

assure you that the Council will continue to actively promote and support these national discussions as to how these collective challenges can be addressed. This will also include continuing discussions around the cumulative financial impact arising from a growing population.

The Council has a significant budget gap to address in the coming years. It remains crucially important that the IJB continues to develop robust and deliverable medium term financial plans, that can meet the full extent of the projected budget gap including that arising from Council delegated functions. This I appreciate will not be easy, and it is vitally important that we continue to work in partnership through the IJB and funding partners to meet these shared challenges. Discussions around the development of further savings options for Council will continue to be explored and as always, the holistic impact of these decisions and shared outcomes will be an important consideration for all partners.

I look forward to continuing with these discussions during 2026-27 and beyond.

Yours sincerely

Sarah Fortune
Depute Chief Executive Resources and Economy (Chief Financial Officer)
East Lothian Council

Cc: Laurence Rockey – Chief Executive, ELC
Fiona Wilson – Chief Officer East Lothian IJB
David Hood – Head of Operations East Lothian
Andrew Cogan – Chair East Lothian IJB
Shamin Akhtar – Vice Chair East Lothian IJB
Ellie Dunnet – Head of Finance
David Henderson – Service Manager, Service Accounting

Appendix 2

Statement on the Robustness of the Budget and Adequacy of Reserves

Introduction

This statement relates to the 2026/27 budget setting process for East Lothian Council. The council's Section 95 Officer is responsible for ensuring the proper administration of the council's financial affairs, including the robustness of the budget and the adequacy of reserves. Council will consider detailed budgets for 2026/27 for general services revenue and capital as well as the housing revenue account. In line with the council's budget development framework and financial strategy, the 2026/27 budgets also comprise high level budget planning for the years 2027/28 to 2030/31.

Robustness of the budget

The aim of the budget is to provide a realistic and sustainable medium term framework that reflects Council Plan priorities within the estimated resources available. The detailed estimates take into account past outturn, current spending plans and likely future demand levels and pressures. Factors taken into account for the 2026/27 budget are as follows:

Council Plan priorities	The proposed budgets for 2026/27 onwards reflect alignment with the following short- term focus areas agreed by Council: 1. Ensure the financial sustainability of the Council through the delivery of approved savings and transforming the way we deliver services. 2. Target resources on statutory services and focus on the highest risks and those most in need. 3. Target resources on statutory services and focus on the highest risks and those most in need.
Consultation with residents and stakeholders	Budget planning reflects consideration of the feedback received through the budget consultation online survey, rent consultation and wider interaction with communities and partners.
Provisional Local Government Finance Settlement	The budget estimates reflect the impact of the draft local government finance settlement and subsequent updates up to 16 February 2026.
CIPFA's Prudential Code and its impact for capital planning	Capital expenditure and borrowing plans have been developed with reference to existing debt levels and future affordability. Details are included in the Treasury Management Strategy Statement.
Capital Programme	The capital programme reflects capital plans for the next 5 years. It should be noted that this is subject to ongoing review which may result in revision to these plans.
Interest rates	Interest rate assumptions are based on projections provided by the council's treasury management advisors and detailed within the Treasury Management Strategy. Any increase to projected interest rates in future years will have a significant

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	impact on the revenue cost of borrowing, and also on the deliverability of the capital programme.
Pay, pensions & price inflation	Budget plans reflect the following assumptions around annual pay increases: 2026/27 – 3.5% 2027/28 & 2028/29 – 3% 2029/30 & 2030/31 – 2% Assumptions made regarding the level of non-pay inflation over the medium term use the relevant applicable measures (e.g. CPI/RPI) and longer term are aligned to the target level of 2%. Variations against these estimates will result in significant budget impacts. The triennial review to set the employer pension contribution rates for the three years from 2027/28 will take place in 2026. Current financial planning assumes no change in the existing rates, however movement upward or downward by 1% would give rise to a budget impact of £1.1 million. Based on the current funding position, our current expectation is that the applicable contribution rate may reduce from 2027/28.
Emerging Growth Pressures	The proposed budget for 2026/27 reflects growth for demand led services including childrens services, IJB and homelessness as well as revenue consequences of delivering the capital infrastructure required to meet the needs of East Lothian's growing population. The cumulative impact of population growth remains a key driver of budget pressures and the funding gap facing the council over the medium term.
Delivery of savings	The draft budget proposals for 2026/27 onwards reflect a number of savings plans. Progress to deliver savings will remain a key area of focus for budget monitoring, and if savings cannot be delivered as planned, then alternative options will need to be identified.
Income levels	The budget assumes general increases to fees and charges of 3%, alongside some service specific changes reflected as part of savings and efficiencies. There is potential variability within estimated income levels due to demand volatility and recovery risk in some cases. Risks to council tax income and rent levels include the possibility of lower collection rates in response to cost of living challenges and losses associated with void properties.
Adequacy of reserves	At 31/03/2025 the provisional unallocated balance on the general fund was £8.5 million. At this time the council also held earmarked reserves of £27.6 million. The financial strategy 2026-31 agreed by Council sets

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	a target minimum unallocated balance of 2.5% of the net revenue budget, which would be £8.9 million based on the draft 2026/27 budget. The adequacy of reserves is discussed in more detail below.
Financial Management	The Council's financial information and reporting arrangements are sound and the in year position is reported to Council at regular intervals throughout the year. The Council received an unqualified audit opinion for the 2024/25 financial statements.

Adequacy of reserves and key budget risks

The minimum prudent level of unallocated balances and earmarked reserves that the council should maintain is a matter of judgement. It is the Council's safety net for unforeseen or other circumstances. Judgement on the minimum level will be informed by the cumulative risks facing the Council, noting that these will change over time. The target minimum unallocated balance on the general fund is currently set at 2.5% of the net revenue budget, which equates to approximately £8.9 million. Additional information on the adequacy of HRA reserves is set out below.

When considering the adequacy of reserves, the key risks that could affect the viability of the budget must be taken into account. The main factors are:

- **Delivery of planned savings**

  Given the scale of the financial challenge being faced, the budget and financial strategy rely on the delivery of a significant amount of savings in order to achieve a balance position.

  The draft budget proposals for 2026/27 onwards include the delivery of over £12m of efficiencies over the next 5 years. Many of these savings proposals will require development, review and consultation by officers, and therefore require adequate lead time to implement.

  Officers are currently working to deliver previously identified savings, and proposals totalling £2.5 million have been reprofiled due to changes to anticipated delivery timescales in order to mitigate the budget impact of implementation delays.

  Officer capacity to deliver savings also presents a risk, in the context of reduced staffing due to recruitment market challenges and enhanced recruitment control, delivery of some of the planned savings will require significant input from officers and ensuring that resources are adequate will be key to this.

  If savings cannot be delivered as planned then alternative action will be required to mitigate the impact, and may include the suspension of some council services, reductions in staffing levels or changes to Council policy. Ultimately if these risks materialise and suitable alternative options cannot be identified, this could create in year budget overspends which would need to be funded from reserves. Progress and

Statement on the Robustness of the Budget and Adequacy of Reserves

risks associated with the delivery of planned savings will remain a critical focus of 2026/27 Financial Reviews.

- **Income levels**

The budget projections for both general services and the HRA rely on a range of key assumptions around income levels which also reflect a significant degree of risk.

Officers continue to monitor and implement key income streams very closely and work hard to ensure that the Council can maximise income collection and recover income which is due wherever possible. We seek to mitigate this through provisions (amounts set aside to reflect that a proportion of income may not be recoverable) but even marginal variations in key revenue streams like council tax and rents will be hugely significant in value.

Furthermore, in accordance with the council's financial strategy, the council is developing new income streams which can be difficult to forecast as there is no historical data on which to base the projections. Collectively these areas will remain subject to close monitoring and review.

- **Pay**

There remains a risk that that pay negotiations may result in a greater increases than the levels allowed for within the current budget projections. Every 1% increase in pay will result in a further pressure on the council's budget of approximately £2 million.

- **Teacher support grant conditions**

Budget projections reflect additional costs linked to minimum learning hours for primary 1 and 2 from 2027/28 onwards. The letter to local authorities from the Cabinet Secretary for Finance and Local Government accompanying the 2026/27 local government settlement makes reference to piloting approaches to implement a reduction in class contact time, noting that it is the intention of this government that this will lead to wider agreement.
Collectively, these measures could have a significant financial impact for the council, resulting in an increased financial burden in excess of £6 million which is significantly higher than the teacher support grant.

- **HRA Affordable Housing Subsidy**

The Scottish Government's budget provides year 1 (2026/27) allocations of affordable housing subsidy allocations only, and the council's share of this allocation remains unknown at this point in time. The budget therefore assumes a level of grant subsidy that will be received in 2026/27 and beyond. If this funding does not materialise this presents an enhanced risk to the delivery of the planned number of affordable homes. Furthermore, this may present a further risk in terms of managing additional borrowing costs and may ultimately result in a delay to planned projects until clarity of future grant subsidy is provided. Given there remains a critical need for the supply of affordable housing this will be difficult to balance to manage the delivery of the programme and financial risk.

- **IJB Budgets**

  Budget monitoring reports during 2025/26 have identified ongoing financial challenges facing the IJB resulting in increased risk of overspends with very limited capacity within reserves to mitigate these. Although an overspend is not currently forecast for council IJB services in 2025/26, the in-year risks have been mitigated through non-recurring funding. The proposed budget for 2026/27 reflects funding uplifts from the council to the IJB in order to mitigate financial pressures relating to pay increases, and also partially mitigates some downward funding adjustments to funding allocation which form part of the 2026/27 funding settlement.
  However, the IJB continues to face a significant funding gap over the medium term that will need to be closed through careful financial management, additional savings, transformation initiatives and potentially service reductions.

  If the IJB is unable to identify options to reach a breakeven budget position, then any overspends which cannot be contained within reserves will fall to partners to meet. A large proportion of the current IJB pressures are driven by demands within council delegated adult social care services including commissioned services, and therefore working in partnership with IJB to ensure that clear and deliverable plans aligned to meet this funding gap remains critical.

- **Council tax base**

  Council tax projections reflect assumed housing growth over the next 5 years. The projections are based on a series of assumptions and informed by data on housebuilding completions and intelligence from the planning service. There are a number of variables which could impact on the actual movement in the number of band D equivalent properties added to the rating list during the year, which are outside of the council's control. Should this arise, this may result in a lower or higher than anticipated Council Tax income.

- **Inflation**

  Inflation remains above the UK Government target of 2%. Inflation impacts on many of the council's input costs and unexpected rises will create an unbudgeted pressure on the revenue account which may mean that the council will be unable to achieve its objectives without further unplanned use of reserves.

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- **Interest rates**

  Interest rate assumptions are based on projections provided by the council's treasury management advisors and detailed within the Treasury Management Strategy. Any increase to projected interest rates in future years will have a significant impact on the revenue cost of borrowing, and also on the deliverability of the capital programme.

- **National funding and employer national insurance contributions**

  The 2026/27 budget has been developed on the basis of the provisional local government finance. Given that this will not be finalised until late February, there remains a risk that funding allocations may still be subject to some change. The high-level budget projections for 2027/28 to 2028/29 reflect a flat cash settlement adjusted for uplifts to the real living wage. However, the projections are based on a one year funding settlement which mean that the position beyond 2026/27 remains uncertain. Scottish Government's spending review indicates a real terms funding reduction for local government of 2.1% between 2025/26 and 2028/29, with local government's share of the Scottish Budget will reduce from 26.4% to 24.8% over this period. It may therefore be necessary to revise these projections to reflect a more pessimistic outlook as part of budget planning for 2027/28 onwards.

  It is hoped that the future funding settlements will provide greater certainty over funding levels the medium term spending review which would enable the council to develop robust plans over a longer period and also to provide greater certainty to partners who rely on council funding over a longer period.

  Variations to any of the funding assumptions may have a direct and significant impact on the council's financial outlook.

- **Demand management**

  External factors including rising costs of living, poverty and demographic change are continuing to place upward pressure on current demand for council services. This represent a risk where funding allocations for demand led services are insufficient to meet the expenditure demands, or where the level of demand is significantly in excess of the assumptions incorporated into the budget.

- **Timing of section 75 contributions**

  There remains a potential risk to recovery of section 75 contributions, driven by the speed of housebuilding and solvency of developers and well as the obligations being met through the delivery of the council's capital programme. If the contributions do not materialise in line with the projections, this could result in temporary pressures which may increase the council's borrowing requirement over the short term. This increases the overall cost of the council's capital programme as the council incurs the cost of borrowing to deliver its obligations for a longer period of time.

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- **Growing Population**

  The East Lothian population continues to grow, and the impact on Council services has been subject to significant local and national discussions and has resulted in a number of significant 'asks' to the Scottish Government including additional revenue funding and the establishment of a 'Growth Fund' to support growing local authority areas in meeting the increased demands on local services and infrastructure requirements. The recurring impact on both revenue and capital spending will further increase as the population grows, and will become further challenging should the Council meet the additional Scottish Government national housebuilding allocation targets. Without a holistic and joined up intervention, this will present a significant risk and threat not only to the financial sustainability of this Council, the services we can provide to our local community, and will impact on delivery of many of the outcomes which are supported nationally and locally.

The council's general and uncommitted reserves levels are considered to remain at a low level relative to these risks. Given the level of savings identified and wide range of concurrent risks facing the council, there remains a key risk that the council will not be able to fully mitigate any events, including overspends or timing differences aligned to the delivery of planned savings.

If the minimum unallocated balance on the general fund falls below the level set out in the financial strategy, then action will need to be taken to replenish balances accordingly. In the first instance, we would seek to use other earmarked balances for this purpose. If this is not possible then a recovery plan would need to be implemented, with a view to replenishing reserves from the revenue account over the subsequent twelve months

The minimum General Fund balance will be kept under regular review in light of these risks and any further factors which arise during the year.

Earmarked Reserves

A number of earmarked reserves exist to cover items that require revenue expenditure in the future, or are held for specific purposes. At 31 March 2025, provisional earmarked reserves totalled approximately £27.6 million. These are amounts which have been earmarked for specific purposes in line with previous Council decisions including transformation, devolved school management and affordable housing delivery. It should be noted that in the event of in year overspends occurring, or where the minimum unallocated balance cannot be maintained, it may be necessary to divert funds from earmarked reserves to restore this.

Housing Revenue Account

The Council operates a Housing Revenue Account (HRA) for income and expenditure relating to the Council's housing stock. By law, the HRA must be self-financing and the financial strategy reflects the following key controls to ensure that HRA budgets remain financially sustainable:

1. Recommended upper limit for the ratio of debt charges to income to 40% both in the short and longer term

Appendix 2

Statement on the Robustness of the Budget and Adequacy of Reserves

2. In support of contingency planning, ensuring that the reserve or balance left on the HRA remains sufficient to maintain a cushion against any unexpected increase in costs or loss of income, and that this remains above £1m. Given the scale of the risks currently facing the HRA, it is appropriate to keep this level under review to ensure that this remains appropriate.

Opinion of the Council's Section 95 Officer

The Section 95 Officer is of the opinion that the approach taken in developing the 2026/27 budget meets the requirements contained in CIPFA's financial management code, ensures the robustness of the budget and the adequacy of reserves. While this ensures that a competent budget can be set for the forthcoming financial year, the funding gap for the period beyond this remains significant and presents a risk to the council's capacity to set balanced budgets in future years.