

REPORT TO: East Lothian Integration Joint Board

MEETING DATE: 26 March 2026

BY: Chief Finance Officer

SUBJECT: 2026/27 Budget Setting

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1 PURPOSE

- 1.1 This paper presents the budget setting process and the proposal to set a balanced budget for 2026/27.

2 RECOMMENDATIONS

The IJB is asked to

- 2.1 Agree a balanced budget on the basis of the approach laid out in 3.12
- 2.2 Approve the Efficiency schemes set out in Table 2 and detailed in Appendix 1.
- 2.3 Note the updated Medium Term Financial Projections and the scale of the financial challenge they present for the IJB over the coming years.

3 BACKGROUND

- 3.1 The Q3 financial report forecast an overspend of £1.793m for the year to 31 March 2026. The month 10 update indicated a similar forecast position. The main areas of overspend relate to Prescribing and Set Aside services, and NHS Lothian has provided assurance that they expect to break even and in doing so will support the IJB to deliver a break even position for 2025/26.
- 3.2 The 2025/26 financial position highlights the challenges facing the IJB in managing growing pressures and delivering a sizeable savings programme.
- 3.3 A number of developments sessions have been held throughout the financial year, with the most recent session highlighting the projected financial position presented in the updated Medium Term Financial Plan,

and setting out the approach we are taking to address the challenges the financial landscape presents.

- 3.4 We continue to work with our partners to update their respective financial plans and reflect the impact of existing and projected pressures and funding proposals on the IJB's financial position for 2026/27.

2026/27 Budget Setting

- 3.5 The outputs from the partners' financial planning processes are summarised below in **Table 1**.

Table 1

2026/27 Budget Setting			
	Health	Council	Total IJB
	£m	£m	£m
<u>Recurring Pressures</u>			
Baseline Pressures	(1.430)	0.000	(1.430)
Growth and Other Commitments	(2.308)	(3.020)	(5.328)
Pay and Price Projected Increases	(2.916)	(0.874)	(3.790)
Total Pressures and Commitments	(6.654)	(3.894)	(10.548)
<u>Recurring Uplifts</u>			
Pay	2.605	0.874	3.479
Policy	0.000	2.070	2.070
Growth and Pressures	0.906	0.350	1.256
Total Recurring Resources	3.511	3.294	6.805
Projected Gap	(3.143)	(0.600)	(3.743)

- 3.6 The initial projected gap for the IJB for 2026/27 is £3.743m. The figures above include:

- Full funding for pay awards for both Council and Health employed staff
- The pass through of funding for the uplift in the Real Living Wage and in Free Nursing and Personal Care.
- The pass through of 2% non-pay uplift on Health budgets
- An additional £0.350m of funding for growth and inflationary pressures within Council delegated services.

- 3.7 A number of underlying pressures are expected to continue into 2026/27, notably within Prescribing in Health delegated services and within Adult Social Care in Council delegated services, where high levels of demand continue to impact on service delivery.

- 3.8 A range of efficiency schemes have been identified across the partnership to address the projected gap. These schemes have been categorised as:

Grip & Control – schemes resulting from financial and operational management reviews of the way funds are utilised.

Invest to Save – schemes that require initial investment but are projected to deliver higher savings over time.

Service Redesign – relates to the reprovision of the neuro rehab service to East Lothian Community Hospital and the redesign of the Lothian Out of Hours service.

- 3.9 **Table 2** below summarised the impact of these schemes on the projected financial gap. A number of Grip & Control schemes have been identified within Hosted and Set Aside services, and these are included in the Health figures below.

Table 2

<u>2026/27 Efficiencies Identified</u>	Health £m	Council £m	Total IJB £m
Projected gap	(3.143)	(0.600)	(3.743)
Grip & Control	2.028	0.598	2.625
Invest to Save	0.218	0.002	0.220
Service Redesign	0.193		0.193
Total Confirmed Efficiencies	2.439	0.600	3.038
Additional efficiencies	0.705		0.705
Remaining Gap	0.000	0.000	(0.000)

- 3.10 The projected gap in the Council delegated services is fully funded by a number of robust efficiency schemes totalling £0.600m.
- 3.11 There remains a gap of £0.705m on the Health delegated functions, which sits entirely within Set Aside services. It is recognised that addressing the Set Aside pressures requires collaborative approach to working across all four Lothian IJBs and Acute services within NHS Lothian.
- 3.12 As in previous years, East Lothian IJB has worked closely with NHS Lothian regarding the management of the Health delegated budgets financial position. On that basis, where NHS Lothian is able to deliver a balanced financial outturn in 2026/27, they will support the IJB's Health delegated budgets to also get to financial balance. This approach is dependent on NHS Lothian being able to deliver break even and discussions will continue throughout the year to ensure the position is managed collaboratively.
- 3.13 The combination of efficiencies identified, and the shared ambition and collaborative working highlighted in 3.12, will enable the IJB to set a balanced budget for 2026/27.

Risks and Mitigation

- 3.14 The budget setting process highlights a number of general and specific risks which are set out below, together with mitigations where identified.

Efficiency Schemes

- 3.15 There is a risk that the efficiency schemes identified in Table 2 are not approved. The Core schemes have been discussed and presented at IJB development days. They are robust in their workings and are considered to be medium or low risk of not delivering. The practice of including a regular update on the delivery of efficiency schemes within the IJB finance report will continue and a forecast will be presented on a quarterly basis to highlight the need for recovery plans should a material shortfall be identified.

Financial Risks

- 3.16 Agenda for Change (AfC) Reform – The NHS Lothian financial plan still assumes that all new funding received for AfC non-pay reform is matched by associated costs in 2026/27. Whilst assuming that there will be no financial pressure, indication suggests a financial risk associated with AfC Reform – particularly in relation to the Reduction in the Working Week and the Band 5 to 6 Nursing review – and this is documented in their Risk Register.

Prescribing

- 3.17 Prescribing spend remains variable and the introduction of the weight management drugs may add some pressure to the financial position. East Lothian has several efficiency schemes in place to mitigate the continued increase in spend, and the development of a specialist pathway for the weight management drugs will ensure their introduction is managed in a phased way.

Operational Risks

- 3.18 Demographic Growth – the East Lothian population continues to increase, as does the >65 cohort within that. This puts increased pressure on our services. The continual review and development of our community-based services seeks to ensure services adapt to the changing needs of the population.

Resources

- 3.19 There is a risk that we do not have enough physical and financial resources to meet the growing demand for our services. The focus on prevention and early intervention initiatives will seek to mitigate the impact on future demand.

Strategic Risk

- 3.20 There is an ongoing risk that efficiency schemes put forward by our partners across Lothian impact on the delivery of our Strategic aims. Strong collaborative working and early communication will ensure that issues are identified at the earliest opportunity.

- 3.21 These risks will be continually monitored and reviewed as part of the regular financial updates reported to the IJB. Where further action is identified, or recovery plans are required, this will be highlighted.

Medium Term Financial Plan

- 3.22 The IJB's Medium Term Financial Plan has been updated to reflect the content of the approved Council financial plan and the latest version of NHS Lothian's financial plan. A high-level summary of the projected cumulative position for 2026/27 to 2030/31 is set out on **Table 3** below.

Table 3

<u>IJB Medium Term Financial Projections 2-26/27 to 2030/31</u>					
	2026/27	2027/028	2028/29	2029/30	2030/31
	£m	£m	£m	£m	£m
Health		(4.182)	(7.486)	(11.082)	(15.021)
Council		(2.038)	(3.909)	(5.328)	(6.909)
Total	0.000	(6.220)	(11.395)	(16.410)	(21.930)
Figures assume break even in 2026/27					

These projections are based on NHS and Local Authority assumptions and estimates.

- 3.23 The above projections set out the current financial landscape before any efficiencies are identified and before any local assumptions are made around funding. To close the year-on-year financial gap, significant transformational change and service redesign is required. Work is underway to produce firm proposals which can be evaluated and presented for review. Future IJB development sessions will incorporate updates on progress with this work and will highlight the benefits and risks identified.

4 ENGAGEMENT

- 4.1 The IJB makes its papers and reports available publicly.
- 4.2 The issues in this report have been discussed with the IJB's partners.

5 POLICY IMPLICATIONS

- 5.1 There are no new policies arising from this paper.

6 INTEGRATED IMPACT ASSESSMENT

- 6.1 The Efficiency schemes are going through the IIA process and the outcomes will be communicated when complete.

7 DIRECTIONS

- 7.1 The IJB is unable to issue directions until the 2026/27 budgets have been agreed.
- 7.2 Agreement to these proposals may impact on the current directions and may require new directions to be issued.

8 RESOURCE IMPLICATIONS

- 8.1 Financial – these are discussed above.
- 8.2 Personnel – none.
- 8.3 Other – none.

9 BACKGROUND PAPERS

- 9.1 None.

APPENDIX 1: IJB Efficiency Schemes 2026/27

AUTHOR'S NAME	Mike Porteous
DESIGNATION	Chief Finance Officer
CONTACT INFO	Mike.porteous@nhslothian.scot.nhs.uk
DATE	March 26

APPENDIX 1

<u>2026/27 Efficiencies</u>		Grip & Control £m	Invest to Save £m	Service Redesign £m
Core	Supplementary Staffing	350		
Core	Medical Supplies	90	119	
Core	Prescribing	973	99	
Core	Workforce Review	70	(11)	
Core	Commissioning	130		
Core	Transport	59	13	
Core	Income Maximisation	127		
Core	AHP Review	100		
Core	Service Review	112		
Hosted	Mental Health Supplementary Staffing	155		
Hosted	Neuro Rehab Redesign			147
Hosted	Service Redesign			46
Hosted	Service Level Agreements	144		
Hosted	PC Workforce	76		
Hosted	Transport	10		
Hosted	PCCO	29		
Set Aside	AHP Review	36		
Set Aside	Sustainable Prescribing	97		
Set Aside	Contract Review	36		
Set Aside	Workforce Review	31		
Total		2,625	221	193