East Lothian Council

REPORT TO:	East Lothian Council
MEETING DATE:	18 February 2025
BY:	Executive Director for Council Resources
SUBJECT:	Budget, Council Tax and Rent Setting 2025-26 Onwards

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1 PURPOSE

1.1 To provide Council with an overview of the national funding settlement for local government, and the implications of this for East Lothian.

1.2 To set the General Services revenue budget and council tax levels for 2025-26 and agree strategic level budgets for 2026-27 to 2029-30.

1.3 To set the General Services Capital budget for 2025-26 to 2029-30.

1.4 To set the Housing Revenue Account budgets for 2025-26 to 2029-30 and agree rent levels for 2025-26.

1.5 To set out the next steps towards delivering the council's financial strategy 2025-26 to 2029-30.

2 RECOMMENDATIONS

Council is recommended to:

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

2.2 Note the content of the 2025-26 local government finance settlement and the funding implications for East Lothian Council.

2.3 Note the key assumptions used to develop the budget proposals which are set out at paragraph 3.11.

2.4 Note the statement on robustness of the budget, adequacy of reserves and key budget risks included at Appendix 1.

2.5 In line with agenda item 2a:

- Approve the housing revenue account revenue and capital budgets for 2025/26 to 2029/30;

- Approve a 6.5% increase in rents for 2025/26.

2.6 Agree to a review of oversight and scrutiny arrangements for housing policy, performance and strategic planning which ensures effective engagement with all stakeholders.

2.7 In line with agenda item 2b:

- Approve the General Services revenue and capital budgets for 2025/26 to 2029/30;

- Approve the council tax level for 2025/26.

2.8 Note the draft IJB budget offer letter attached within Appendix 2.

2.9 Agree the indicative timetable and next steps for developing budget projections and closing the budget gap for 2026-27 onwards, as set out at paragraphs 3.54 to 3.61.

3 BACKGROUND

3.1 This report accompanies the proposed General Services and HRA revenue and capital budgets for 2025-26 onwards. Budget proposals have been developed in the context of 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 Scottish and UK Government.

3.3 In December 2024, Council approved the Financial and Capital Strategies for the period 2025-26 to 2029-30 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 2025-26 financial year was announced on 4 December 2024, with the provisional funding settlement for Scottish local authorities following on 12 December. This is a one-year settlement and key features of this were set out within the report to Cabinet on 21 January 2025.

3.5 Key developments since the Cabinet report are set out below. It should be noted that these updates have been shared as draft and remain provisional and subject to change until the settlement is finalised through the parliamentary process:

- As part of the stage one budget debate, the Cabinet Secretary has announced £144 million funding to support with the cost of the increase to employer national insurance contributions. It is estimated that this will cover approximately 60% of the direct costs of this increase. The Council's share of this funding is estimated to be £2.75 million, although this is yet to be confirmed.
- An additional £6.1 million increase has been announced for the Whole Family Wellbeing Fund. The Council's expected share of this is £0.112 million, meaning that the total uplift in this funding stream for 2025-26 is £0.122 million.
- A further £0.4 million uplift to the School Clothing Grant has been announced. The Council's expected share of this is £0.007 million, meaning that the total uplift in this funding stream for 2025-26 is £0.022 million.
- An anticipated uplift of £0.036 for Scottish Disability Assistance, which will be passed to the IJB, is also anticipated.

3.6 The parliamentary process for finalising the Local Government Finance Order is underway and expected to conclude on 27 February. Any further changes to the settlement which arise over the coming weeks will be reported to a future Council meeting.

3.7 Aside from the £144 million noted above for direct costs, the settlement is not expected to reflect any funding uplift to offset the impact of employer national insurance increases on commissioned contracts or ALEOs. Along with the anticipated shortfall of 40% in the funding being made available to support the direct cost, this represents a significant demand on the previously announced £289 million of funding to support local priorities.

3.8 Further commitments against the new funding announced in the draft settlement include the implementation of the Scottish Local Authorities Remuneration Committee's recommendations following the independent review of councillor remuneration, alongside pay, inflation and growing demand for services.

3.9 In addition, Scottish Government remains committed to a number of measures relating to teacher numbers, including restoring these to 2023 levels, making meaningful progress towards reducing class contact time and exploring the introduction of minimum learning hours. The combined financial impact of these measures on the Council present cost pressures in excess of £5 million. Therefore, if these policies are imposed without significant additional funding, the financial consequences for the Council would be severe, and the implications on the settlement would effectively mean a reduction in unringfenced funding.

Budget Proposals – General Services Revenue

3.10 Budget proposals have been updated to reflect the implications of the provisional settlement updates along with revised assumptions around employer national insurance funding.

3.11 Alongside the impact of the draft settlement, the proposed budgets reflect:

- A provision of 3% for pay increases in 2025-26, 2026-27 and 2027-28, which represents consistency with the updated Public Sector Pay Policy. The later years include an allowance of 2%.

- Updates to estimated inflationary pressures, debt charges, revenue costs of capital and other service pressures.

- An assumption that savings previously agreed by Council will be delivered, after reprofiling £2.5 million of savings linked to the asset review and income generation into later years.

- £0.9 million further budget reductions in 2025-26.

- An assumption that a 3% inflationary uplift will be applied to fees and charges in 2025-26.

- Use of the capital reserve to smooth debt charges between 2025-26 and 2027-28.

- An uplift of £7.453 million in the funding offer from the Council to the IJB (comprised of settlement uplifts totalling £3.207 million, assumed employer national insurance contributions funding of £0.349 million and additional investment from the East Lothian Council of £3.897 million).

- Additional investment in other demand led services including Children's Services (£2.756 million) and Homelessness, to offset the growing range of pressures these services face.

- Investment in other key priority areas including increased funding for external partners.

- An assumption that funding allocated for Packaging Extended Producer Responsibility have a cost neutral impact on the 2025-26 budget. The Council's allocation of this funding for 2025-26 is £2.63

million. This funding comes from DEFRA and does not form part of the provisional settlement, and details are awaited on the specific expectations linked to this funding, along with the impact on future finance settlements.

- A 10% increase in council tax charges in 2025-26, with indicative annual increases of 5% in the years subsequent to that.

3.12 The budget model reflects a balanced position for 2025-26. However, the funding position beyond this remains very uncertain and there is an estimated 5-year funding gap for the Council and IJB of £79.718 million. After taking account of planned savings and indicative annual council tax increases of 5%, the residual gap remains at £45.911 million. Without significant additional funding, this gap will require further budget reductions and/or additional council tax increases to achieve a balanced position from 2026-27 onwards. As an indication of the scale of the challenge, the table below sets out the required reduction in service budgets (or increase in income) required in order to close this gap, along with the required increase in council tax charges over and above the planned increases of 5%:

	26-27	27-28	28-29	29-30
Percentage reduction in service budgets required to balance budget	4.6%	3.2%	3.1%	2.8%
Total additional council tax increase (above 5%) required to balance budget	24.3%	14.4%	12.4%	10.5%

Table 1: Future budget gaps closed by budget reductions / council tax increases

Growth Pressures

3.13 Reports to Council and Cabinet over the last year have continued to highlight the challenging financial environment facing local government and the wider public sector.

3.14 At a local level, the Council continues to face significant challenges as a result of population growth and demographic change. These factors, along with growing demand for statutory services, are continuing to increase the gap between available funding and expenditure requirements. As one of the fastest growing council areas in Scotland, this remains a significant challenge for East Lothian and is set alongside other pressures facing the whole of the public sector, including pay and contract inflation, along with increasing expectations arising from new policy commitments at a national level. Officers and Members have continued to raise awareness of these challenges through the appropriate channels within Scottish Government and CoSLA.

3.15 The Scottish Parliament Information Centre (SPICe) analysis of the provisional 2025-26 local government finance settlement sets out the local authority revenue allocation per head of population, presented as % of Scottish average and shows that East Lothian's funding share means that the Council continues to have the third lowest per capita funding in Scotland, with 81.4% of the Scottish average.

3.16 The anticipated uplift in the funding settlement for 2025-26, combined with a 10% council tax increase, make it possible for some of the key risk areas within the budget to be addressed, and the proposed budget reflects growth in the following priority areas:

Adult social care (IJB)	£3.897 million
Children's Services	£2.756 million
Education	£1.943 million
Inclusion & wellbeing	£0.875 million
Homelessness & supported accommodation	£0.845 million

3.17 The funding uplift for these services is provided alongside ongoing efforts to deliver transformational change within the areas to improve outcomes and reduce the need for high-cost interventions. It will also help to mitigate some of the significant budget risks which the Council has faced throughout the current and previous years in relation to managing spend within the budget envelope.

3.18 The need for additional investment within Children's Services is evidenced through the significant increase in demand for statutory social work services, with a 30% increase observed since 2017, along with growing cost pressures which have resulted in budget overspends in recent years. This is partly driven by population growth alongside a combination of other pressures which have increased demand on children's services and increased the costs of providing these services.

3.19 The service is committed to taking a holistic approach, prioritising ongoing efforts to prevent children and young people from requiring accommodation and returning children to East Lothian when this is in their best interests. The increased funding reflected within the draft budget model will enable this focus to continue, and this will come with the ongoing expectation that services continue to operate within approved budget levels.

3.20 For adult social care, significant overspends are anticipated in the current financial year (£2.8 million, quarter 2), with further cost pressures forecast for 2025-26 and beyond. This presents a significant risk to the Council's financial resilience, with a £2.8 million reduction in general balances anticipated as a result of the 2024-25 IJB budget overspend (based on the quarter 2 forecast). This has been a growing area of pressure in recent years which has resulted full depletion of IJB reserves. These growing pressures without any reserve balances to mitigate overspends significantly increase the risk of unplanned overspends needing to be met through additional funding from partners.

3.21 As with Children's Services, population growth and demographic change have been key drivers of the cost pressures within the IJB, and these pressures have not been recognised by increased funding allocations through the finance settlement in recent years. Although this challenge is not unique to East Lothian, as one of the fastest growing local authority areas in Scotland, these pressures remain particularly acute.

3.22 Increased investment in these areas demonstrates alignment of resources with the short-term focus areas in the Council Plan, specifically targeting resources on statutory services and focussing on the highest risks and those most in need.

IJB

3.23 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 2025-26. The draft letter is attached at Appendix 2 to this report and reflects the existing (2024-25) budget allocation for the IJB, uplifted by:

- £3.2 million additional funding notified through the draft settlement which the Council must passport to the IJB;
- £3.7 million further budget uplift to support pay, inflationary and demographic pressures; and
- £0.6 million funding to fully offset the employer costs of the employer national insurance contribution increase (comprised of a proportionate share of the anticipated grant funding, along with a further allocation from the council budget to meet the funding shortfall).

3.24 The IJB has agreed savings as part of the 2024-25 budget. £0.801 million of the planned savings have been assessed as deliverable. 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.

3.25 The additional funding set out above equates to a recurring revenue uplift of £7.5 million (9%) from the Council. Alongside this, the proposed General Services capital budget includes £1.7 million to secure a sustainable future for the Haddington Day Centre by enabling its relocation to the Tynebank Resource Centre, alongside continued investment in community alarms' transition to digital.

3.26 The planned capital investment comes with an assumption that the IJB will commit to ongoing investment in community-based services including day centres, reflecting alignment with strategic plan priorities. Alongside this, the proposed funding uplift to the IJB in 2025-26 will be provided with a clear expectation that this is used first and foremost to offset budget pressures within social care and reduce the risk of overspends being transferred back to the Council.

3.27 The IJB will also receive a letter from NHS Lothian, setting out the 2025-26 budget allocation from its other key funding partner. Together, these letters will be used to set the IJB budget for 2025-26 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.

Council Tax

3.28 Income from council tax covers approximately a quarter of the Council's annual running costs. The proposed budget includes a council tax increase of 10% in 2025-26, aligned to previous planning assumptions along with indicative annual increases of 5% in the subsequent 4 years. This follows the council tax freeze for the current year and, if agreed, will represent the first increase in council tax charges since 2023-24.

3.29 As noted already within this report, despite seeing an uplift in revenue funding through the settlement, the Council continues to face significant demand and pressures which have resulted in budget overspends in recent years. Alongside the risks this presents to financial sustainability, the Council also faces significant risks if adequate resources cannot be made available to meet statutory responsibilities, including keeping the most vulnerable in communities safe from harm. The preceding paragraphs highlight the pressures on key front line services which require investment. Council tax increases are applied in order to balance the budget after taking account new funding and planned savings.

3.30 A 10% increase in the council tax charge represents a weekly increase to an average (band D) property of £2.76 and is estimated to result in increased council tax income of £9.456 million in 2025-26, which will support investment in Council services and mitigate the need for further budget reductions. This uplift also reflects estimated housing growth which is informed by data held by the Planning Service.

3.31 The Residents' Survey conducted in 2024 included focussed questions around the budget and council tax levels. The majority of respondents indicated a preference for moderate council tax increases rather than further cuts to Council services, with 61% indicating that they would support a council tax increase of not more than £3 per week, which supports the rationale for a 10% increase in 2025-26.

3.32 The proposed council tax charges for 2025-26 are set out below, along with the weekly and monthly increases (based on payment over 12 months):

	Annual charge	Annual increase	Weekly increase	Monthly Increase
A	£1,052.79	£95.71	£1.84	£7.98
B	£1,228.25	£111.66	£2.15	£9.31
C	£1,403.71	£127.61	£2.45	£10.63
D	£1,579.18	£143.56	£2.76	£11.96
E	£2,074.86	£188.62	£3.63	£15.72
F	£2,566.17	£233.29	£4.49	£19.44
G	£3,092.56	£281.14	£5.41	£23.43
H	£3,868.99	£351.73	£6.76	£29.31

Table 2: 2025-26 Council Tax Charges (excluding Water & Sewerage)

3.33 Approximately 37% of households fall within bands E-H for council tax purposes, and will therefore see an increase to the standard charge which is in excess of £3 per week. However, 2,671 of these households are eligible for reductions or exemptions which reduce the weekly increase below this level, meaning that just under 68% of households will see an increase in their council tax bills of below £3 per week.

<u>General Services Capital</u>

3.34 The report to Cabinet in January set out the changes to the Council's capital funding in 2025-26 arising from the provisional Local Government Finance Settlement. Alongside uplifts to a number of funding streams, the draft settlement also reflected a significant clawback of forward funding for flood prevention schemes which has been paid to the Council in 2024-25. While this represents a change to the timing of expected cash flows for flood scheme funding and does not impact on the availability of funding to support capital expenditure plans, the clawback resulted in a distorted impact on the funding available for 2025-26.

3.35 Through discussion between officers and civil servants, agreement has now been reached on a mechanism which will enable the clawback to effectively be spread over the next three years and therefore enable the positive presentation of capital funding to support a number of key schemes in 2025-26, although it should be noted that this position remains provisional at this stage.

3.36 In addition to this change, since the report to Cabinet in January the Council has received indicative notification of £0.8 million climate emergency funding which was previously undistributed.

3.37 The proposed capital budgets for 2025-26 to 2029-30 reflect the following:

- Commitment to invest £211.104 million in infrastructure over the next 5 years;
- Net new borrowing requirement of £103.589 million after taking account of grants and other funding streams;

- Significant investment in the education estate including improvements to security, increasing ASN provision space and the completion of 3 new primary schools which are due to open in 2025;
- An uplift of £1 million to the roads budget in 2025-26, bringing overall investment in roads over the next 5 years to £22.7 million.
- An uplift of £1 million to the property renewals budget in 2025-26, bringing overall investment in property renewals over the next 5 years to £11 million.
- Commitment to relocation of the Haddington Day Centre to the Tynebank Resource Centre (£1.76 million);
- Ongoing commitment to the Musselburgh Flood Prevention Scheme;
- A number of projects which are paused pending a wider strategic review.

3.38 Capital expenditure demands are principally driven by the need to deliver infrastructure to support housing growth in the county. However, this growth is not matched by increases in capital grant, and developer contributions are not sufficient to meet the full cost of these requirements, which has given rise to significant increases in borrowing demands. This issue remains subject to ongoing national discussions at both officer and political level. Furthermore, the revenue consequences associated with the creation of these assets are resulting in increased pressure on revenue budgets.

3.39 Council has already taken steps to try and reduce borrowing demands by introducing a £20 million target for capital receipts which can be used to fund capital investment and offset increases in borrowing demands. Realising this target will be reliant on the place-based review of assets progressing at pace over the next 2-3 years.

3.40 Work to review the Capital Programme in the context of affordability constraints is ongoing, with a view to identifying priority areas for investment and ensuring that capital expenditure plans yield the maximum benefit for the residents of East Lothian. This work encompasses a review of planned investment in the learning estate, including projects which are currently paused, to ensure that capital expenditure delivers maximum value and aligns with the longer-term requirements of the education service. Once complete, the outcomes of this review will be reported to Council during 2025-26 financial year for consideration, along with any recommended changes to the capital programme. This work will also be used to inform future budget development proposals for 2026-27 onwards.

Housing Revenue Account (HRA)

3.41 In the context of the affordable housing emergency declared by Council in November 2024, funding to support the delivery of new affordable housing is a key consideration for developing the HRA budgets. However, the Council's share of this subsidy has not yet been confirmed for 2025-26. Proposed budgets therefore reflect an assumed level of subsidy, and this remains a risk within the projections.

3.42 The consultation on 2025-26 rent levels closed on 20 December, and the results of this are detailed in a Members' Library Service report. Tenants were asked for their views on a 7% rent increase, which would give rise to an average weekly increase of £5.75, along with feedback on priority areas for maintaining services and target areas of investment such as windows and doors, damp and mould, roofing and render together with other major works.

3.43 In response to consultation feedback, the proposed budgets reflect the following:

- 6.5% increase in rents in 2025-26;
- Extra £1 million investment in modernisation in all five years;
- Plans to deliver an additional 774 new affordable homes by 2029-2030 (cumulative total since 2022-23)

3.44 The Financial Strategy also includes a commitment to delivering the planned rent restructure and plans are under way to address this during 2025-26.

3.45 Council will be aware that the financial strategy sets the following two key financial controls to ensure the sustainability of the HRA:

1. Recommended upper limit for the ratio of debt charges to income to 40% both in the short and longer term
2. In support of contingency planning, ensuring that the reserve or balance left on the HRA does not fall below £1.0 million

3.46 The proposed budget and 6.5% rent increase for 2025-26 allows for both of these tests to be met. However, taking all factors into account, the five-year projections stretch affordability to the limits of these control measures, with the ratio of debt charges to income projected to be met by a very small margin between 2026-27 and 2029-30, assuming 5% rent increases in line with the financial strategy.

3.47 On average, a new-build house will bring in under £5,000 in rent each year but will cost the HRA £10-12,000 each year in debt costs. Without additional government funding or a review of the rent strategy this approach will become unsustainable over the medium term.

3.48 In the context of elevated interest rates and increased unit costs to deliver new build affordable housing, alongside lack of certainty in government funding and increasing demands for modernisation, it is considered appropriate to review the longer-term strategy for the HRA, encompassing the business plan and future rent levels. This report therefore recommends a review of oversight and scrutiny arrangements for housing policy, performance and strategic planning in order to enable this.

3.49 The development of the longer-term sustainable strategy underpinned by a longer-term business model for the HRA needs to be informed by effective engagement with all stakeholders, and consideration will need to be given to ensuring that the work required to achieve this is adequately resourced.

Statement of robustness of estimates and adequacy of reserves

3.50 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 1 to this report.

3.51 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.

3.52 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.

3.53 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

3.54 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** – 18 February 2025
- **Stage 3** – 25 February 2025
- **Local Government Finance Order** – 27 February

3.55 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 2026-27 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.

3.56 This work will need to incorporate effective and meaningful engagement with the public and other key stakeholders, aligned to the findings of Audit Scotland's recent report: *Transparency, transformation and the sustainability of council services*, which highlights that councils need to be more transparent in how they report and monitor the financial decisions underpinning their annual budgets, and how these impact services, noting that this information needs to form a central part of engagement and consultation with partners and citizens.

3.57 Future planning will also take cognisance of the outcomes of the spending review. It is hoped that the spending review will provide greater certainty around funding to enable realistic planning over the medium term, and that future settlements may cover a period longer than one year.

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

Date	**Meeting**	**Action**
June 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.
June 2025	Council	Provisional outturn report 2024-25.
August 2025	Council	Q1 financial update report, to include an overview of progress towards delivering agreed savings for 2025-26.
October 2025	Council	Draft financial outlook report to Council, setting out high level budget forecasts and measures to balance the budget for 2026-27 onwards.
December 2025	Council	Q2 financial update report, to include an overview of progress towards delivering agreed savings for 2026-27.
December 2025	Council	Consider the Financial and Capital Strategies for 2026-27 onwards.

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

Table 3: Budget development next steps

3.59 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.

3.60 It is assumed that the cross-party budget working group will continue to meet on a regular basis throughout the year, to support the development of proposals to balance the budget from 2026-27 and beyond. Although not a forum for decision making, this approach is intended to support the budget development process by ensuring that Members are sighted on the detail and impact of changes linked to budget decisions, to ensure that progress towards delivery of budget savings is on target, and to act as an informal sounding board for ideas. Audit Scotland's most recent Annual Audit Report also highlights the importance of cross party working.

3.61 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.

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 INTEGRATED IMPACT ASSESSMENT

5.1 Integrated impact assessments are required for budget some of the proposals where these involve a significant change to delivery of services by East Lothian Council.

6 RESOURCE IMPLICATIONS

6.1 Financial – as described within the report and supporting appendices.

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Members Library – Impact of Austerity

7.2 Cabinet, 21 January 2025 - Budget Development Update

7.3 Council, 10 December 2024 - Financial & Capital Strategies 2025-30

7.4 Council, 27 August 2024 - Budget Development 2025-26 onwards

7.5 Members Library Service - Rent Consultation

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Appendix 1

Statement on the Robustness of the Budget and Adequacy of Reserves

Introduction

This statement relates to the 2025/26 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 2025/26 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 2025/26 budgets also comprise high level budget planning for the years 2026/26 to 2029/30.

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 2025/26 budget are:

Council Plan priorities	The proposed budgets for 2025/26 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	Budget planning reflects consideration of the feedback received through the budget focussed questions in the 2024 Residents Survey, including views around council tax increases.
Provisional Local Government Finance Settlement	The budget estimates reflect the impact of the draft local government finance settlement and subsequent updates up to 6 February 2025.
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 a 5 year window with a commitment to pause and review certain projects which are not yet committed in the context of affordability risks.

Appendix 1

Statement on the Robustness of the Budget and Adequacy of Reserves

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.
Pay & price inflation	Budget plans include a 3% annual provision for pay increases in the first 3 years and 2% in the years subsequent to that. Assumptions made regarding the level of inflation over the medium term aligned to the target level of 2%. Variations against these estimates will result in significant budget impacts.
Emerging Growth Pressures	The proposed budget for 2025/26 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 2025/26 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.
Adequacy of reserves	At 31/03/2024 the provisional unallocated balance on the general fund was £7.6 million. At this time the council also held earmarked reserves of £26.6 million. The financial strategy 2025-30 agreed by Council sets a target minimum unallocated balance of 2.5% of the net revenue budget, which would be £8.6 million based on the draft 2025/26 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 expects to receive an unqualified audit opinion for the 2023/24 financial statements although work to finalise the audit remains ongoing at present.

Appendix 1

Statement on the Robustness of the Budget and Adequacy of Reserves

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. The minimum level cannot be judged merely against the cumulative risks facing the Council, as these can and 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 £8.6 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 2025/26 onwards include the delivery of over £8m 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 risks associated with the delivery of planned savings will remain a critical focus of 2025/26 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.

Appendix 1

Statement on the Robustness of the Budget and Adequacy of Reserves

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 3% 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

The Cabinet Secretary for Education and Skills wrote to COSLA on 30 January to reaffirm Scottish Government's commitment to restoring teacher numbers to 2023 levels, freezing learning hours and to make meaningful progress towards reducing class contact time for teachers. In this letter, she indicated the Government's expectation that the phased implementation of reduced class contact time can commence from the start of the next school year in August 2025. 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 (2025/26) 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 2025/26 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 2024/25 have identified significant financial challenges facing the IJB resulting in increased risk of overspends with very limited capacity within reserves to mitigate these. The proposed budget for 2025/26 reflects a significant funding uplift from the council to the IJB in order to mitigate these financial pressures and risk of overspending in 2025/26. 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. The IJB also faces a particular risk in relation to the impact of the employer national insurance contribution increase on commissioned services.

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 slightly 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.

- 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 2025/26 budget has been developed on the basis of the provisional local government finance. Given that this will not be finalised until early March, there remains a risk that funding allocations may still be subject to some change. The high-level budget projections for 2026/27 to 2029/30 reflect a flat cash settlement. However, the projections are based on a one year funding settlement which mean that the position beyond 2025/26 remains uncertain.

The proposed budget for 2025/26 assumes that the council will receive a grant equivalent to 60% of the direct costs of the employer national insurance contribution increase announced by UK Government.

It is hoped that the spending review may provide greater clarity over funding for the next 3 years which would enable the council to plan with greater certainty over the medium term.

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.

- Capital Accounting Review

  Plans and timescales for progressing the capital account review remain unclear at the present time. However, on the basis of initial modelling of the potential changes that were consulted on, changes which may be implemented in the future have the potential to result in significant budget pressures for both general services and HRA budgets.

- 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

Statement on the Robustness of the Budget and Adequacy of Reserves

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 2024, provisional earmarked reserves totalled approximately £26.6 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

2. In support of contingency planning, ensuring that the reserve or balance left on the HRA does not fall below £1.0 million

Opinion of the Council's Section 95 Officer

The Section 95 Officer is of the opinion that the approach taken in developing the 2025/26 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.

Appendix 2

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

18 February 2025

Mike Porteous
Chief Finance Officer
East Lothian Integration Joint Board

Dear Mike,

Revised Financial resource proposal from East Lothian Council to East Lothian Integration Joint Board – 2024-25 and 2025-26

This letter sets out the level of financial resources that will be delegated by the Council to the IJB in 2025-26 and is aligned to the Council budget approved on 18 February 2025.

2024-25 Revised Financial Resource Proposal

Firstly, I want to confirm the that the final IJB funding for 2024-25 has increased from £74.977 million to £75.262 million reflecting the transfer of the Community Justice Officer post to the IJB (£59,000), and additional £226,000 of pay funding which the Council has agreed to pass over to the IJB. The revised baseline funding is set out below:

2023-24 Adult Wellbeing Budget	£68.493m
Excluding Non-Delegated services	(£0.540m)
Baseline Pay Award and Staffing	£0.522m
2024-25 Council Funding for Pay Award	£0.226m
Community Justice Officer Budget Transfer	£0.059m
TOTAL - Opening Baseline	**£68.760m**
New National Investment (Adult Services)	
£12 per hour Real Living Wage National Uplift	£4.637m
Free Personal and Nursing Care Uprating	£0.366m
Self-Directed Support	£0.005m
TOTAL - New National Investment	**£5.008m**
Other Delegated Budgets	
Non-HRA Private Sector Housing Grant	£0.256m
HRA - Disabled Adaptations (Capital)	£1.000m
HRA - Garden Aid	£0.238m
TOTAL - Other Delegated Budgets	**£1.494m**
2024-25 Total IJB Financial Resource	**£75.262m**

2025-26 Financial Resource Proposal

The budget proposal to the IJB has been set in the context of the total resources available to the Council during 2025-26. 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 2025-26 has been set in the context of managing these collective challenges faced by both organisations.

The specific details setting out the resource proposal remains aligned to the delegated functions set out within the approved Integration Scheme. As previously highlighted those areas set out within 'Other Delegated Budget lines' remain subject to on-going review and aligned to the Integration Scheme. The Council and IJB will be kept fully updated as to the outcome of this review and the potential impact.

The 2025-26 resource proposal includes:

- Total additional funding of £7.453 million (9%) which is in addition to the 2024-25 baseline budget. This funding offer includes:

    - £3.207 million provided within the national funding settlement to support a range of national policy commitments;
    - £349,000 anticipated share of national funding to support the estimated employers' National Insurance increase. This is estimated to cover approximately 60% of the direct costs;
    - £3.897 million additional funding provided by the Council including:
        - £3.665 million to support a range of pressures including pay uplift, inflationary and demographic pressures as well as funding to support the 2024-25 recurring baseline pressure;
        - £232,000 additional contribution to meet the full estimated direct cost of employers national insurance increase to the IJB.

- Taking these factors into consideration the total financial resource to be made available to the IJB for 2025-26 is £82.715 million. The breakdown of this funding is set out in more detail within the table below.

2025-26 Financial Resource offer to IJB

2024-25 Adult Wellbeing Budget	£73.768m
Employers' National Insurance – Anticipated share of SG Funding	£0.349m
Employers' National Insurance – Additional ELC investment	£0.232m
ELC Additional Investment	£3.665m
TOTAL - Opening Baseline	**£78.014m**
New National Investment	
£12.60 per hour Real Living Wage National Uplift	£2.742m
Free Personal and Nursing Care Uprating	£0.208m
Mental Health Recovery & Renewal	£0.221m
Scottish Disability Assistance	£0.036m
TOTAL - New National Investment	**£3.207m**
Other Delegated Budgets	
Non-HRA Private Sector Housing Grant	£0.256m
HRA - Disabled Adaptations (Capital)	£1.000m
HRA - Garden Aid	£0.238m
TOTAL - Other Delegated Budgets	**£1.494m**
2025-26 Total IJB Financial Resource	**£82.715m**

As you know, the national Scottish Government budget is not expected to be formally approved until end of February, and as such the figures will remain in draft until this is finalised. In addition, there remain a number of ongoing national discussions to take place during the year including the outcome of national pay negotiations. As such I will keep you updated should any changes materialise.

The budget offer to the IJB sits alongside capital investment provided by the Council. This includes ongoing investment to support the community based alarms transition to Digital, as well as £1.7 million new additional investment to secure a sustainable future for the Haddington Day Centre by enabling its relocation of Tynebank Resource Centre. Collectively this represents a significant uplift in funding to support adult social care services.

In return, there remains a very clear expectation that this additional funding will be used first and foremost to offset social care budget pressures and reduce the risk of overspends being transferred back to the Council. Furthermore, given the capital investment provided, it is expected that the IJB will continue to support ongoing and sustained investment in community-based services including day centres.

It is the responsibility for the IJB to develop sustainable and deliverable financial plans for 2025-26, and it is expected that the Council delegated functions will operate within the total available resources made available. Aligned to the Scheme of Integration, should any financial pressures arise during 2025-26, 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 2025-26 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 as to how the planned additional investment will be used.

I remain acutely aware that there remain significant and ongoing 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 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.

Going forward, the Council has a significant budget gap to address in 2026-27 and beyond. It remains essential 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 vital 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 2025-26 and beyond.

Yours sincerely

Sarah Fortune
Executive Director for Council Resources (Chief Financial Officer)
East Lothian Council

Cc: Lesley Brown – Interim Chief Executive, ELC
Caroline Hiscox – NHS Lothian Chief Executive
Fiona Wilson – Chief Officer East Lothian
David Hood – Head of Operations East Lothian
Shamin Akhtar – Chair East Lothian IJB
Andrew Cogan – Vice Chair East Lothian IJB
Ellie Dunnet – Head of Finance, ELC
Craig Marriott – NHS Lothian Director of Finance
David Henderson – Service Manager, Service Accounting, ELC