

# Scottish Borders Council

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Scottish Borders Council and the Controller of Audit

September 2024

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# Key messages

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## 2023/24 annual accounts

- 1 Our audit opinions on the annual accounts of Scottish Borders Council (the Council) and its group are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 The management commentary, annual governance statement and remuneration report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.
- 3 Adjustments have been made to the annual accounts as a result of the audit process as detailed in [Exhibit 2](#) of the report.

## Financial management and sustainability

- 4 The Council has appropriate and effective financial management. The Council has a good track record of operating within its annual budget. While facing financial challenges through inflationary pressures on pay and non-pay costs as well as demand on services, the Council continues to demonstrate sound financial management maintaining general fund reserves in line with the long term Revenue Financial Strategy. This includes a risk based evaluation of unallocated reserves.
- 5 The capital programme plans to invest £450 million over the next ten years. Over the five year horizon of the revenue budget, revenue spend is planned at £1.89 billion, with savings required of £18.1 million (1%) over the same period.
- 6 The Council's ongoing transformation work continues and was refreshed in February 2024 under the SBC Way programme, launched in early 2024.

## Best Value

- 7 The Council refreshed its Strategic People Plan outlining the progress made since the Strategic People Plan was set in 2016. The Council recognises that further work is required to fully align the Strategic People Plan with the Council's future Operating Model, Council and Financial plans to take account of the changing strategic and operational landscape, performance and evolving priorities.
- 8 The Council has good examples of using digital technology to improve workforce productivity and improve services.

- 9 The Council has implemented, and had success with, several workforce initiatives to try and address some of the workforce challenges facing the public sector. Recruitment and retention of staff remains a risk, similar to many local authorities.

## **Vision, leadership and governance**

- 10 The Council has a clear vision linked to its outcomes.
- 11 The Council has effective and appropriate governance arrangements for delivery of its plans.

## **Use of resources to improve outcomes**

- 12 The Council has appropriate performance reporting arrangements in year and are further developing KPIs as required to ensure they better reflect the needs of Scottish Borders Council.
- 13 The Council has reported that they were able to maintain service performance levels with some improvements in education indicators and recycling. Challenges exist in indicators relating to looked after children.
- 14 The Council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)
- 15 The Council is undertaking a major review of culture and leisure services to address financial sustainability challenges.

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# Introduction

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**1.** This report summarises the findings from the 2023/24 annual audit of Scottish Borders Council (the Council). The scope of the audit was set out in an Annual Audit Plan presented to the 11 March 2024 meeting of the Audit Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the Council's annual accounts
- conclusions on the Council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [\*Code of Audit Practice 2021\*](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

**2.** This report is addressed to the members of Scottish Borders Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment

**3.** John Boyd has been appointed by the Accounts Commission as auditor of the Council for the period from 2022/23 until 2026/27.

**4.** We would like to thank Councillors, Audit Committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit and we look forward to working together constructively over the remainder of the five-year appointment.

## Responsibilities and reporting

**5.** The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

**6.** My responsibilities as the independent auditor are established by the Local Government (Scotland) Act 1973, the [\*Code of Audit Practice 2021\*](#) and supplementary guidance, and International Standards on Auditing in the UK.

**7.** Weaknesses or risks identified are only those which have come to my attention during my team's normal audit work and may not be all that exist. Communicating these does not absolve management of the Council from its responsibility to address the issues raised and to maintain adequate systems of control.

**8.** This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## **Auditor Independence**

**9.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £347,980 (£342,730 in respect of the Council and £5,250 in respect of the Trust accounts) as set out in my 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**10.** The annual audit adds value to the Council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations.
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

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# 1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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## Main judgements

Our audit opinions on the annual accounts of Scottish Borders Council and its group are unmodified, i.e. the financial statements and related reports are free from material misstatement.

The management commentary, annual governance statement and remuneration report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

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## Audit opinions on the annual accounts are unmodified

**11.** The council approved the annual accounts for the Council and its group for the year ended 31 March 2024 on 26 September 2024. In addition to the Council, the group accounts consolidate the financial results of the Council and its subsidiaries and its interests in joint ventures. These include Scottish Borders Council Common Good Funds, Scottish Borders Council Trust Funds (registered and unregistered), Bridge Homes LLP, Live Borders and Scottish Borders Integration Joint Board.

**12.** As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- the audited part of the remuneration report was prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Overall materiality was assessed on receipt of the unaudited annual accounts as £9.3 million

**13.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**14.** My initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount (Council)	Amount (Group)
Overall materiality	£9.3 million	£9.4 million
Performance materiality	£6.5 million	£6.6 million
Reporting threshold	£465k	£469k

**15.** The overall materiality threshold for the audit of the annual accounts of the Council was set with reference to gross expenditure, which was judged as the figure most relevant to the users of the financial statements.

**16.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. We have used professional judgement and set performance materiality at 70% of overall materiality, reflecting our accumulated knowledge of the Council.

**17.** It is my responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

### Significant findings and key audit matters

**18.** Under ISA (UK) 260, we communicate significant findings from the audit to the Council, including our view about the qualitative aspects of the Council's accounting practices.



**19.** The Code of Audit Practice also requires me to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance.

**20.** The significant findings including key audit matters, are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p><b>1. IAS 19 pension disclosures – prior period adjustment</b></p> <p>Following the completion of the 2022/23 audit, information was disseminated from the actuary which identified that the unfunded liabilities of £18.0 million identified in the IAS 19 pension report should be separately disclosed on the balance sheet and should not form part of the net asset ceiling calculation.</p> <p>In 2022/23 there has been a pension asset ceiling calculated by the actuary to net the maximum amount of asset which could be recognised in the balance sheet at £32.7 million.</p> <p>The Council requested the actuary confirm the value of the net asset ceiling for 2022/23 because the unfunded liability had been included in the net asset ceiling calculation in 2022/23.</p> <p>The actuary revised the underlying methodology for the asset ceiling to use a perpetuity model, which is consistent with the calculation of pension asset ceilings in 2023/24.</p>	<p>A prior period adjustment in line with International Accounting Standards (IAS) 8 has now been included in the accounts. This was not included in the unaudited accounts as the Council was awaiting revised information from the actuary.</p> <p>The unfunded liability for 2022/23 of £18.0 million has been separately report on the balance sheet.</p> <p>The revision to the methodology meant that the asset ceiling for 2022/23 was £149 million. This is in excess of the pension asset for 2022/23, meaning the entire pension asset of £82.3 million has been recognised for 2022/23 on the balance sheet.</p> <p>The net pension asset in the reserves is £64.3 million.</p> <p>The comparative figure for 2023/24 is £86.2 million. No adjustments were required to the net pension asset for 2023/24.</p> <p>We have reviewed this and are satisfied that the actuary has updated the methodology in line with established Local Government Pension Scheme audit and practitioner views and the disclosures relating to this are satisfactory.</p> <p>This was judged to be a key audit matter given a material adjustment to the unaudited accounts and restatement of the prior year financial statements.</p>
<p><b>2. Assets not revalued in year</b></p> <p>Land and buildings assets which are not revalued by a valuer in year should be</p>	<p>Each main category of land and building assets was reviewed by the internal valuer and a desktop valuation of a representative</p>

Issue	Resolution
<p>reviewed to ensure that there are no material movements in the carrying value of the assets.</p> <p>A desktop valuation of a sample of assets across all categories was completed by the internal valuer, supported by the external valuer, and this indicated that there was a material movement in asset values, particularly in respect of those assets valued on a depreciated replacement cost (DRC) basis. This increase was due to significant market driven movements which resulted in an increase in asset values.</p> <p>This assessment identified there was a material misstatement in the carrying value of land and buildings at 31 March 2024.</p>	<p>sample of properties was undertaken by the internal and external valuers. Based on this exercise a percentage movement for each class of asset was identified by the valuer.</p> <p>The finance team applied the agreed indices to the assets not valued in year, updating the asset register to reflect this. This resulted in an uplift in the net book value of Council assets of £37.7 million. The largest area of movement related to DRC properties in the school estate.</p> <p>The financial statements of the Trust and Common Good funds, which form part of the group, were also adjusted to reflect an uplift in the carrying value of assets of £0.17 million and £0.77 million respectively.</p> <p><b>Recommendation 1</b></p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p> <p>This was judged to be a key audit matter given the material impact on the carrying value of assets.</p>
<p><b>3. Significant trading operation three-year cumulative deficit</b></p> <p>The Council has one significant trading operation (STO), SBc Contracts. Under the Local Government in Scotland Act (2003) the external trading accounts of significant trading operations have a prescribed objective to break even over a rolling three-year period.</p> <p>SBc Contracts reported an operating surplus of £0.158 million in 2023/24. However, following technical accounting adjustments for IAS 19 Employee Benefits (including pensions), the final position was a reduced surplus for 2023/24 of £0.144 million for external works but a three-year cumulative deficit of £0.189 million.</p>	<p>Management has carried out a review which was reported to the Executive Committee in September 2024. This has identified that the trading operation is not significant but will continue to be classified as a trading operation.</p> <p>There is no impact for our Independent Auditor's Report.</p> <p>We will review the recommendations and actions from this review during 2024/25.</p>
<p><b>4. Significant trading operation – internal charges</b></p> <p>We reported in 2022/23 that a 16% profit margin had been added to infrastructure assets additions, which continues in 2023/24.</p> <p>Further details of the composition of this 16% profit margin were shared by the Finance team</p>	<p>For the purposes of capitalisation of infrastructure assets, the Council should identify all direct costs and then strip out the allocation of overheads and associated profit margin to ensure that assets are not overvalued on the fixed asset register.</p> <p>Further, given that the trading organisation should be run on a commercial basis, the</p>

Issue	Resolution
<p>in year. We agree that elements of these costs would be classified as directly attributable costs and therefore it is satisfactory to capitalise this element of the 16% margin.</p> <p>An assessment by the Council estimates the non-directly attributable costs to be £1.17 million in 2023/24 and £0.85 million in 2022/23. From our review of this, we are satisfied that this split is consistent with our understanding of the costs. We have extrapolated this over the period from 2016/17 (when the status of SBc Contracts was last formally reviewed) to determine the maximum likely cumulative misstatement in the accounts and this would give a maximum error of £6.6 million. This is not considered material to the accounts.</p>	<p>Council should revisit its pricing model. This would ensure that when it is delivering external projects that the cost of 'sales', overheads and profit element are clearly identified to ensure that the Council achieves best value from the trading organisation.</p> <p>We are satisfied that the maximum possible error has been identified and it is not material to the accounts. No adjustment has been made in the accounts.</p> <p>We have recommended that this profit margin will no longer be capitalised.</p> <p><b>Recommendation 2</b></p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>

## Audit work responded to the risks of material misstatement we identified in the annual accounts

**21.** We obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal</li> </ul>	<p><b>Results:</b> We found no instances of material misstatement due to fraud or error caused by management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>entries and other adjustments.</p> <ul style="list-style-type: none"> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments throughout the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>	
<p><b>2. Estimation in the valuation of land and buildings.</b></p> <p>Scottish Borders Council held land and buildings with a NBV of £466 million as at 31 March 2023. Land and Building asset categories are revalued on a five-year rolling basis.</p> <p>There can be a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p>	<ul style="list-style-type: none"> <li>• Review the information provided to the external valuer to assess for completeness and accuracy.</li> <li>• Evaluate the competence, capabilities, and objectivity of the internal and external professional valuers.</li> <li>• Obtain an understanding of the management's involvement in the valuation process to assess if appropriate control and oversight has occurred.</li> <li>• Critically assess the approach Scottish Borders Council has adopted to assess the risk that assets not subject to valuation are</li> </ul>	<p><b>Results:</b> As detailed in <a href="#">Exhibit 2</a>, the assets which had not been subject to formal revaluation in 2023/24 had a material movement of £37.7 million and this has been updated in the annual accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Valuations should reflect conditions at 31 March 2024 including those subject to valuation and those not revalued.</p> <p>There is a risk the carrying valuation of land and buildings does not reflect the current value at 31 March 2024.</p>	<p>not materially misstated, consider the robustness of that approach and the appropriateness of any assumptions made</p> <ul style="list-style-type: none"> <li>• Review the reconciliation between the financial ledger and the property asset register.</li> <li>• Critically assess the adequacy of Scottish Borders Council's disclosures regarding the assumptions in relation to the valuation of land and buildings.</li> </ul>	

## Areas of focus

**22.** In addition, as part of our assessment of audit risks, we identified other areas where we considered there were areas of focus in the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we did not consider these to represent significant risks. These areas of specific audit focus were:

**23. Pension Valuation:** We utilised the work of PwC as auditor expert in assessing the reasonableness of the methodology used and assumptions made by the Council's actuary, Hymans Robertson LLP, in arriving at the IAS 19 pension valuation as at 31 March 2024.

**24.** In accordance with IFRIC 14, the pension asset recognised within the financial statements was compared to the asset ceiling calculated by the actuary. We are content that the full value of the pension asset should be identified because the value is below the asset ceiling. We have reviewed the assumptions applied by the actuary in arriving at the asset ceiling cap and are satisfied that this is in accordance with IFRIC 14. The net pension asset recognised in 2023/24 was £86.3 million.

**25. SBc Contracts:** The significant trading operation failed to meet the objective of breaking-even over a three year period. Further, a 16% profit element has been incorrectly capitalised in infrastructure assets. The results from our work are detailed in [Exhibit 2](#).

**26. Service concession arrangements:** We reviewed the accounting adjustments and disclosures within the financial statements with regards to implementation of the statutory accounting treatment for Service Concession arrangement flexibilities as set out in Finance Circular 10/22 in relation to the

Council's PPP contracts. Audit work identified that the retrospective saving of £29.09 million had been accounted for correctly through a transfer between reserves. The in year saving had not been accounted for in the same manner. The £3.56 million in year saving has been updated in the annual accounts and the new treatment is now consistent with the retrospective saving.

### Areas of further work

**27.** As part of our risk assessment, we have also identified the following areas where further work would be performed. These are not risk of material misstatement to the primary financial statements but areas to be kept under review:

**28. Legal agreements Common Good:** We noted that legal agreements for the three largest assets have been put in place and signed during 2024/25. There has been no change in the financial statements, but we note that these will become right of use assets under the introduction of IFRS 16 (see below).

**29. IFRS 16:** from 1 April 2024, a new International Financial Reporting Standard, IFRS 16, will come into effect for Local Authorities. IFRS 16 introduces a new 'Right of Use' asset class to the balance sheet, and also recognises the corresponding lease liability. This applies to all leases - property, land, vehicles, plant and equipment.

**30.** This will change the way in which the Council accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. The Council has used the services of a management expert to support their preparations for the implementation of IFRS 16 from 2024/25.

**31.** In terms of recognition exemptions, IFRS 16 provides two major recognition and measurement exemptions to reduce the reporting burden on entities: short-term leases and low value leases. CIPFA has mandated the application of the recognition exemption for short term leases meaning that a lease that, at the commencement date, has a lease term of 12 months or less is exempt from the accounting treatment under IFRS 16.

**32.** For low value leases the recognition exemption is optional. The Council as lessee may elect not to apply the accounting treatment under IFRS 16 to low value leases. It is a matter for individual authorities to set a local policy to define what low value is in practice. The Council has elected to apply the low value recognition exemption.

**33.** Under IFRS 16 the initial measurement of the lease liability is recognised at the commencement date and measured as the present value of the lease payments that are not paid at that date using the:

- interest rate implicit in the lease, or
- lessee's incremental borrowing rate (but only if the implicit rate cannot be readily determined)

- 34.** IFRS 16 is a complex accounting standard. The Council has awarded Link Treasury Services the contract for the procurement of leasing advice. The Council has obtained a software solution that meets the particular accounting requirements of IFRS 16 for local authorities.
- 35.** When the interest rate implicit in the lease cannot be readily determined, the Council uses the PWLB annuity certainty rate as a reference as agreed with the Council's treasury management advisors.
- 36.** The expected effect of operating leases for the Council is included in the disclosure notes in the accounts, and at 1 April 2024 there will be an increase of right to use assets of £4.79 million and a corresponding increase in creditors of £3.41 million. Areas of work which are still ongoing are on peppercorn leases and it is likely that the PPP models for schools will also be reviewed as part of this process.
- 37. Statutory override infrastructure assets:** The statutory override relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements. On 24 June 2024, the Scottish Government published; [Introduction - Local government finance circular 8/2024 - accounting for infrastructure assets: temporary statutory override - gov.scot \(www.gov.scot\)](#).
- 38.** Due to practical difficulties in applying component accounting for the recognition and derecognition of replaced components of infrastructure assets, most local authorities have been unable to comply with the requirement to assess the net book value of a replaced component of an infrastructure asset and have taken a network approach to the measurement of such assets, treating the amount of the replaced component as having no value.
- 39.** The temporary statutory override was introduced in August 2022, applying to the 2022/23 and 2023/24 financial years, in order to allow time for the CIPFA LASAAC Local Authority Accounting Code Board to conclude the development of a permanent solution.
- 40.** A permanent solution has not yet been agreed and this will continue be an area of enhanced scrutiny for local government auditors. The statutory guidance has been extended by a further 12 months, until 31 March 2025.
- 41.** We note that as part of the Fit for 2024 close out reporting, that Confirm (the Council's Infrastructure Asset Management system) contains details of roads, bridges and structures and street lighting assets and current condition, corrective work and repairs that have been undertaken. The Council should be able to utilise information from this system to support future data cleansing of infrastructure assets on the fixed asset register.

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### Recommendation 3

The Council should proactively work with CIPFA LASAAC and the wider local government sector to arrive at appropriate solution for the implementation of accounting for infrastructure assets.

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42. We kept the areas of focus and further work under review throughout our audit. Based on the findings of the audit procedures performed, we have detailed our conclusions above.

### **There were material and non-material misstatements identified within the financial statements**

43. Other than the corrected material misstatements detailed as significant findings in [Exhibit 2](#), the audit identified no misstatements above the reporting threshold.

44. The audit team identified a number of misstatements which were not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material.

45. The Council had purchased iPads to support the Inspire learning programme for £1.65 million in June 2023 and immediately sold them to a leasing company for the same consideration. The Council then leased these back from the leasing company for a one-off fee (in full) of £1.46 million. The Council was treating this as an operating lease and had accounted for the full amount as a prepayment in the accounts and began releasing amounts to the CIES (Comprehensive Income and Expenditure Statement) on a pro-rata basis across the lease term. This resulted in a £251k charge to the CIES for 2023/24, with the remaining balance of £1.207m in prepayments at the year end. We considered that this to be a sale and leaseback transaction.

46. The iPads should have been capitalised as an asset on the Balance Sheet and then depreciated over the life of the lease term. At the end of the lease the iPads will be returned to the lease company. This has not been updated in the accounts. This will be addressed in 2024/25. We are satisfied this is not material to the understanding of the accounts.

47. The Council made one immaterial restatement in the prior year comparator core financial statements and a number of immaterial restatements in the prior year comparator group core financial statements. IAS 8 states that prior period restatement should only be carried out to adjust material corrections. We are satisfied that these have been reversed by the Council and immaterial corrections have been made in the current year.

48. Further details of uncorrected misstatements are included in [Appendix 2](#).

### **The unaudited annual accounts were received in line with the agreed audit timetable**

49. The unaudited annual accounts were received in line with the agreed audit timetable on 25 June 2024.



## **Our work on the registered charitable trusts for the Council will be reported separately**

**50.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of the Council are sole trustees, irrespective of the size of the charity. The independent auditor's report for the charitable trusts will be reported in advance of the 31 December 2024 deadline.

**51.** The Trusts can appoint a trustee who is not a councillor to each charitable trust, and this would take the Section 106 charities out with the scope of requiring to be audited. This process would allow for the Council to arrange for an independent examination to be carried out to meet the requirements of OSCR (Office of the Scottish Charity Regulator). This would reduce the administration burden related to these registered charitable trusts. The Council is currently investigating this process for the Trusts in 2024/25.

## **Good progress was made on prior year recommendations**

**52.** The Council has made good progress in implementing the agreed prior year audit recommendations particularly relating to Best Value work, where all actions are complete. From the 2022/23 audit, two actions have been superseded and updated for 2024/25 and for the one remaining action not yet implemented, a revised response and timescale has been agreed with management. This is set out in [Appendix 1](#).

## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

### Conclusion

The Council has appropriate and effective financial management. The Council has a good track record of operating within its annual budget. While facing financial challenges through inflationary pressures on pay and non-pay costs as well as demand on services, the Council continues to demonstrate sound financial management maintaining general fund reserves in line with the long term Revenue Financial Strategy. This includes a risk based evaluation of unallocated reserves.

### Scottish Borders Council operated within its budget in 2023/24

**53.** The Council approved its 2023/24 budget in February 2023. The budget was set at £343.76 million, which included the use of earmarked balances and reserves of £4.23 million and required savings of £8.41 million.

**54.** A recovery fund of £1.2 million was brought forward from 2022/23 and fully utilised in year. This was used to support in year financial pressures, additional financial support committed to Live Borders for 2024/25, a consultancy review of Live Borders, and released into revenue to offset corporate landlord energy costs pressures.

**55.** A number of adjustments were made throughout the year including the receipt of additional grant income and budget adjustments including the use of earmarked balances. The actual outturn was £346.5 million representing a net underspend of £0.6 million (0.17%) against the final approved budget.

**56.** The more significant under and overspends are summarised in [Exhibit 4](#).

### Exhibit 4

#### Summary of the main under/overspends against budget

Area	£m	Reason for variance
<b>Underspends</b>		
Infrastructure and environment	£1.002	Underspends in catering and passenger transport were partly offset by spending on school meals and

Area	£m	Reason for variance
		school transport. The remainder of the underspend reflects increased income in waste management, a surplus from SBc Contracts and a milder winter than expected.
Education and Lifelong Learning	£0.538	This underspend predominately relates to delivering the Scottish Government's requirements around early learning and childcare for less than the funding provided in year
<b>Overspends</b>		
Social Work and Practice & Public Health	£0.337	The main pressure relates to out of council area placements for children and young people which is partially offset by savings in IJB delegated services and in safer communities spending on resettlement costs for Ukrainian families.

Source: Scottish Borders Council Executive Reporting 2023/24

## Budget processes and budget monitoring were appropriate

**57.** The Council continues to set a balanced budget each year and maintains the level of reserves in line with its Financial Strategy. A suite of budget papers is produced annually which also includes the long-term financial strategy, capital investment strategy, treasury management strategy and 5 year plans for revenue and 10 year plans for capital investment. For 2024/25 a people plan now also feeds into these papers.

**58.** The Council has an Executive Committee with 17 members, half of all Council elected members and representative of all political parties. This operates as the overall strategic committee for the Council and has cross-party membership. The Executive Committee receive regular revenue and capital monitoring reports and, from a governance perspective, conducts detailed scrutiny of financial performance.

**59.** From our review of these reports, we concluded that these provide an overall picture of the budget position at service level and good explanations for significant variances against budget. These allow both members and officers to carry out scrutiny of the Council's finances and to take actions as required to address budget pressures.

**60.** As in previous years, a cross-party working group was established as a mechanism to support the delivery of the Council budget and facilitated early discussions that enabled scenarios and options to be worked through. Audit Scotland's Best Value thematic review on leadership (2022/23) recognised these processes as demonstrating evidence of collaborative working across political parties supporting outcomes for the Council.

**61.** We observed that senior management and members receive regular and accurate financial information on the body's performance against budgets. The body has appropriate budget setting and monitoring arrangements.

### **There has been a significant increase in the level of General Fund reserves**

**62.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the Council increased from £62.2 million in 2022/23 to £72.4 million in 2023/24, a net increase of £10.2 million.

**63.** The main movements in year have been a significant reduction in earmarked balances of £21.8 million and an increase of £37.7 million of allocated reserves. Allocated reserves are made up of the £20 million Change Fund and £8.4 million to support the financial plan. These have been funded by the change in accounting treatment relating to service concession arrangements. There is a further £7 million available funding from 2023/24 which will be used towards supporting the 2024/25 budget. The remaining balance relates primarily to increases in the Treasury Reserve.

**64.** The new £20 million Change Fund was agreed in the 2023/24 budget. The Council identifies this as a crucial part of its long term revenue strategy and transformation programme. The Change Fund is intended to improve the Council's short, medium and long-term sustainability. The fund aims to be self-replenishing which will allow ongoing upfront investment in delivering change and modernisation. Proposals are made via business cases to support projects which will generate recurring savings, generate income for the Council, or reduce future costs. £1 million of funding has been deployed in 2024/25 including supporting IT related projects which are expected to generate permanent, recurring savings with payback to the fund being made over a three to five year period.

**65.** The Scottish Government's 2022 Resource Spending Review contained details of a Service Concession Arrangement (SCA) flexibility that related to the Council's PPP schools. The flexibility permits councils to undertake internal accounting changes that extend the period over which the principal repayment of the unitary charge can be made, resulting in a one-off credit to the General Fund (shown in the Movement in Reserves Statement) and ongoing annual savings for a period of time. Payments to the third parties will remain on the current agreed schedule. This accounting measure means that the phasing of the unitary charges can be extended over the 50 years of the schools' lives.

**66.** The Council applied the permitted change in the calculation of the statutory charge in 2023/24 and the adopted approach has been applied across the schools PPP financial arrangements. This has resulted in a one-off cumulative retrospective saving of £29.1 million in 2023/24 (relating to the period to end of 2022/23) and a further in year permanent saving of £3.56 million which was included in the 2023/24 financial plan and was used to support the Council budget.

**67.** Included within the £72.4 million general fund reserve, is £7.2 million of unallocated reserves. This is £1.2 million less than recommended in the Financial Strategy for 2023/24, which was to hold 2.5% of net expenditure as unallocated reserves. The Council have reported that £0.8 million of this variance is a timing difference relating to the 2023/24 pay award, and funding was received from the Scottish Government in 2024/25. Unallocated reserves are 2.08% of net revenue expenditure of £346.5 million.

**68.** Management considers that this level of reserve reflects a suitable contingency to contribute towards any unanticipated pressures. In addition, the level of unallocated reserves for 2024/25 is set at 2% of net revenue expenditure or £7.4 million.

### **The financial strategy risk register is an area of good practice**

**69.** As part of the suite of budget papers, a financial strategy risk register is produced. This details risks over the five years of the revenue plan and the associated cost of these risks materialising. An example would be that for every 1% increase in pay pressures not budgeted for, this would result in an additional cost of £1.8 million. Costs are applied to the risks and then the total is compared to the unallocated reserves. In 2023/24, it was estimated that unallocated reserves would be able to address 59% of the value of the risks identified. The Council looks at this from the perspective of what would happen if these risks were to materialise at the same time, rather than including probabilities into this assessment. We noted that the financial strategy risk register for 2024/25 identifies that unallocated reserves would cover 50% of the risks identified in the budget setting process for 2024/25. The Council should continue to ensure that given the focus on the reserves it is important that the "risk cost/price" estimates are subject to appropriate scrutiny and review.

**70.** We are satisfied that there is clear reporting of the reserves and that they are regularly reviewed to confirm they remain at an appropriate level throughout the year.

### **Planned efficiency savings were achieved with 58% on a recurring basis**

**71.** The 2023/24 budget included planned savings of £8.4m and brought forward savings from 2022/23 of £3.1m giving a total of £11.5 million savings to deliver in year. The Council achieved actual savings of £11.5 million (100%). £6.6 million of savings were on a recurring basis (58%) with the remainder £4.9 million on a non-recurring basis (42%). Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years, see [Exhibit 5](#).

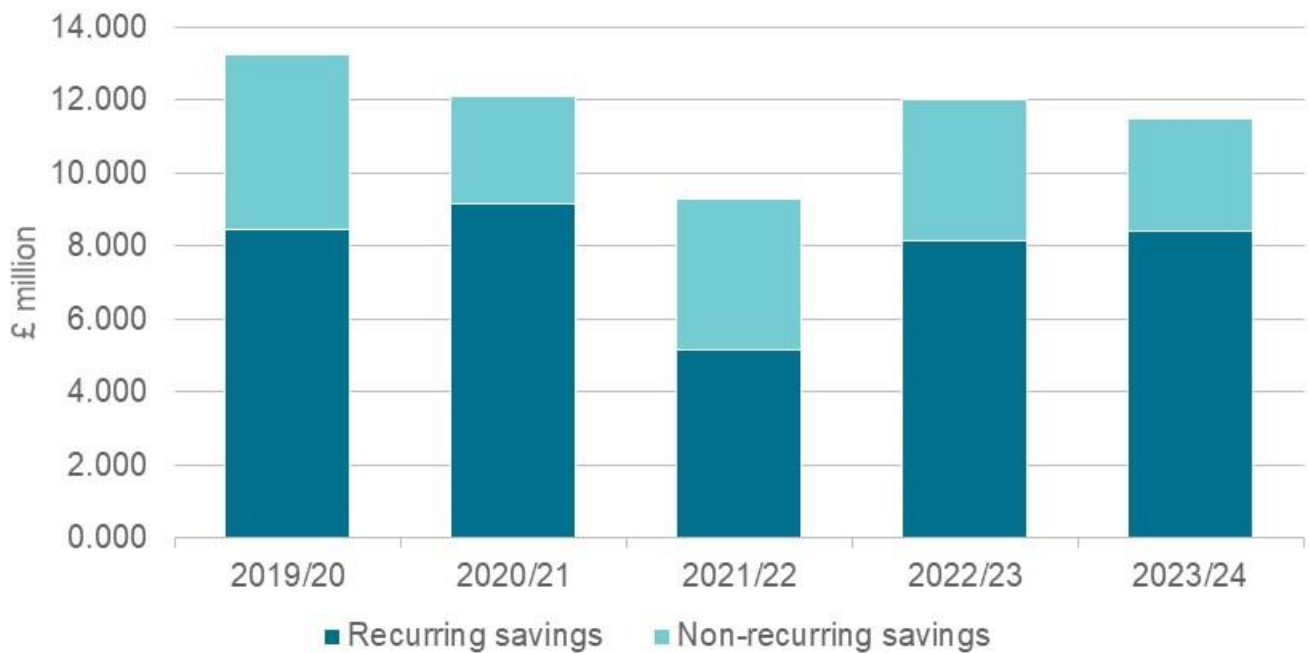
**72.** The majority of the savings in 2023/24 were to be made in the finance and corporate governance directorates which included corporate savings to be delivered Council wide. £6.1 million of savings were identified in the financial plan for the year, with £3.8 million delivered permanently and £2.3 million on a temporary basis. Of this £3.8 million, £3.6 million related to the permanent saving in loans charges generated by the service concession flexibilities.

**73.** The £4.9 million of savings made on a temporary basis have rolled forward into 2024/25 and put pressure on delivery of savings in 2024/25. The base budget for 2024/25 approved by the Council in February 2024 (included in the 5 year revenue plan) identified the requirement for £4.4 million of savings. The additional £4.9 million brought forward from 2023/24 more than doubles this savings challenge to £9.3 million for the year. The increased savings target increases the risk that savings will not be made on a recurring basis in year and will roll forward into future years.

**74.** As noted above the Council has used the service concession arrangements in relation to PPP schools. Using flexibilities will provide benefits now and may help councils to balance their budgets, but it defers costs to the general fund into later years and does not directly tackle the underlying challenges to financial sustainability.

## Exhibit 5

### Savings – recurring and non-recurring



Source: Scottish Borders Council Annual Accounts 2023/24

## Capital expenditure increased in 2023/24

**75.** Total capital expenditure in 2023/24 was £90 million against a revised budget of £96.9 million. Whilst there was an underspend on the planned budget, there is still a significant increase in capital investment from 2022/23 when £63.5 million was spent. The main ongoing projects are the Hawick Flood Protection Scheme and the building of new high schools in Galashiels and Peebles, and Earlston Primary School with £52.5 million invested in these projects. Other areas of expenditure included roads and bridges, plant and vehicles and ICT transformation.

**76.** The main challenges for delivery of capital projects in year has been the high levels of inflation along with supply chain issues relating to construction materials which have affected the public sector more widely. The impact of this has been price increases, material shortages and longer lead times for projects. Reports to the Executive Committee have been provided throughout the year. The macroeconomic pressures of high inflation and significant increases in construction inflation has resulted in increased total expected spend for all the schools' projects. This has been reported to the Executive Committee in year.

### **Reinforced autoclaved aerated concrete (RAAC)**

**77.** The Council completed its review of operational assets to identify the presence of RAAC. It was found in 2 locations. As reported in the annual accounts, one building is safe and in good condition and a monitoring regime has been put in place. The other building, old Jedburgh Grammar School, is unoccupied and planned for demolition during 2024/25.

### **Short term borrowing has increased in 2023/24**

**78.** At 31 March 2024, long term borrowing stood at £201.5 million, a decrease of £8.4 million on the 2023 level of £209.9 million. During the same period, short term borrowing increased from £3.5 million to £50.0 million. £40 million of new short term borrowing (1 year) was undertaken in year with PWLB (the Public Works Loan Board) also known as the UK Government Debt Management Office. This is to support capital investment. The Council works with its treasury management advisors to determine the most appropriate borrowing arrangements to support the Council's needs.

**79.** The capital financing need was not fully funded by external loan debt and instead by internal cash. The Council has applied this strategy on the basis that this is prudent and cost effective in an environment where investment returns are low and counterparty risk is high. The Treasury Management Strategy had estimated that £70 million might require to be borrowed in year to support capital investment, but with cash management, it was determined that only £40 million was required to be borrowed.

**80.** Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set in the Treasury Management Strategy 2023/24. The current borrowing position complies with the Prudential Code, and the Council continues to consider the affordability of future borrowing.

### **Scottish Borders Council has appropriate financial control arrangements in place**

**81.** Our responsibilities under the Code of Audit Practice requires us to assess the system of internal control put in place by management. We seek to gain assurance that the Council:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud, or corruption
- complies with established policies, procedures, laws, and regulation

**82.** From a review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and testing of the operating effectiveness of specific key controls relating to journal workflows, we did not identify any internal control weaknesses which could affect the Council's ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements.

**83.** Whilst there is regular quarterly reporting by CGI to the External Services/Providers Monitoring Group, we noted that the Council does not receive formal assurances via a service auditor report from CGI regarding the IT control environment. This would provide additional assurances over the control environment. Further, as we reported in 2022/23 disaster recovery testing can continue to be improved, see paragraph [126](#).

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## Recommendation 4

The Council should seek a formal service auditor assurance report for CGI to provide the council with additional assurance over the control environment and support timely identification of any risks.

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## Internal audit's opinion was there are generally sound systems of governance, risk management and control in place

**84.** The Council's internal audit function has completed its 2023/24 audit work and presented its Internal Audit Assurance Report to the May 2024 Audit Committee. The annual opinion is that there are generally sound systems of governance, risk management and control in place across the Council. This is against a backdrop of challenging financial and people resources, increasing service demands and additional obligations on the Council.

**85.** Internal audit made some alternations to the approved plan to replace proposed work with new pieces of work. The plan was completed in year, and the allocated budget days for audit work were fully used. Internal audit continues to monitor recommendations from current and previous years. Management have implemented 16 of the 32 recommendations made in 2021/22, 18 of 26 in 2022/23 and 10 of 29 in 2023/24. There are approx. two recommendations per year over the due date for implementation and internal audit continues to monitor progress for these.

## Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

**86.** The Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption.



Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place. There is a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, counter fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

**87.** The Integrity Group supports management in their primary responsibility for the prevention, detection, and investigation of fraud, met regularly throughout 2023/24. The Integrity Group carried out a Counter Fraud Controls Assessment for 2023/24 which was presented to the Audit Committee on 13 November 2023 and assessed the controls in place to address areas of fraud identified within the [Fraud and Irregularity Annual Report 2022/23](#). The Integrity Group was satisfied controls were in place to address these risks and identified a small number of areas where controls could be enhanced.

**88.** We have reviewed the arrangements put in place by the Council to address any heightened risks and concluded that there are appropriate arrangements for the prevention and detection of fraud, error, and irregularities.

### **The Council has actively participated in the National Fraud Initiative (NFI) demonstrating its commitment to support the prevention and detection of fraud**

**89.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Council participates in this biennial exercise. The 2022/23 exercise concluded during the 2023/24 financial year and the final national report was published in summer 2024.

**90.** During 2023/24, the Council liaised with Audit Scotland to get additional staff added to the NFI system and to support training of these staff. This was completed in January 2024

**91.** The Chief Officer Audit and Risk reported progress on cases to the May 2024 Audit Committee. It identified that 11,442 cases had been reviewed across key areas including housing benefit, pensions, payroll and creditors. Work is progressing in relation to the council tax single person discount cases. From this work, one fraud and 34 errors have been identified, with a value of £75k. Currently just over 10,000 of these cases have been concluded on the NFI system.

# 3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

## Conclusion

The Council has effective and appropriate arrangements in place to continue to deliver services into the medium term, with medium and long term financial plans in place.

The capital programme plans to invest £450 million over the next ten years. Over the five year horizon of the revenue budget, revenue spend is planned at £1.89 billion, with savings required of £18.1 million (1%) over the same period.

The Council's ongoing transformation work continues and was refreshed in February 2024 under the SBC Way programme, launched in early 2024.

**92. [Exhibit 6](#)** sets out the wider scope risk relating to Financial Sustainability identified in the 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over this risk and the conclusions from the work completed.

## Audit work has addressed the wider scope risk identified in the Annual Audit Plan

### Exhibit 6

#### Risks identified from my wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Financial Sustainability</b></p> <p>Scottish Borders Council continues to operate in an increasingly complex and challenging environment where they aim to provide the best possible service within the resources available.</p> <p>Latest financial monitoring reports covering the nine</p>	<ul style="list-style-type: none"> <li>Review of the Council's annual budget setting arrangements</li> <li>Review and assessment of budget monitoring arrangements</li> <li>Review of the Council's medium to longer-term financial planning</li> <li>Ongoing review of the Council's financial position,</li> </ul>	<p><b>Results and conclusion:</b></p> <p>The Council delivered an underspend of £0.6 million against a net revenue budget of £346.5 million. Whilst savings targets were achieved some were on a non-recurring basis, and these have rolled forward into the 2024/25 revenue plan.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>months ended 31 December 2023 have indicated that the Council is projecting an unfunded overspend of £3m against their revised 2023/24 budget as a result of service pressures experienced across the Council.</p> <p>Management have implemented an action plan with the aim of reducing the level of overspend faced but there is a significant risk that the Council will be unable to balance the 2023/24 budget and further one off measures will be required at the year end to ensure the funding of the overspend including the utilisation of non-earmarked reserves.</p> <p>As part of the 2024/25 budget process management will need to consider the impact of the ongoing financial pressures facing the Council and agree a robust delivery plan for savings in order to ensure its continued financial sustainability.</p>	<p>transformation plans and delivery of planned savings.</p>	<p>The Council recognise the financial challenges facing the organisation, but appropriate measures are currently in place to achieve financial sustainability over the medium to longer term.</p>

### Medium and longer-term financial plans are in place and reflect the Council's strategic plan and outcomes

**93.** As part of the budget setting process each year, the Council has continued to adopt a five-year approach to medium term revenue planning, and a ten-year timeframe for the capital plan. The long-term financial strategy extends to include revenue for a ten-year period to allow the Council to plan more effectively over a longer period. This ten year planning horizon should allow the Council to plan service and strategic change appropriately and ensure the financial implications of the Council Plan are properly considered, affordable and reflected in future budgets.

**94.** The Council's five year revenue plan shows a planned spend of £1.89 billion. The Council identified pressures totalling £63.1 million over the five years, which are dominated by pay pressures of £35.3 million, and non-pay and

inflationary pressures of £14.9 million. These pressures have been added to the approved base budgets for each year. This has resulted in savings targets being identified for the five year period of £18.1 million (1% of expected revenue spend). Whilst the plan identified savings targets averaging just under £4 million per year, this does not reflect that temporary savings made in previous years will need to be made on a recurring basis. The savings target for 2024/25 has doubled to over £9 million, as a result of non-recurring savings being brought forward from the previous year, see paragraph [73](#). If this pattern continues over the medium-term this will make achieving a financially sustainable position more challenging.

**95.** The medium term revenue plan identifies that for 2024/25 reserves and some service concession flexibilities, totalling £9.6 million will be used to support the balanced budget. Currently, there is no additional funding from reserves required in the following years.

**96.** We noted the percentage of unallocated/uncommitted reserves as a percentage of net revenue in 2023/24 was 2.08% and it is planned to be 2% for 2024/25, see paragraph [67](#). These percentages are lower than the Council's unallocated reserves over the last ten years of data on the Local Government Benchmarking Framework website. We recognise that the level of unallocated reserves is dependent on the Council's approach to earmarking funds. However, given the sustainability challenges faced across the public sector, there is an opportunity to enhance its focus on financial resilience, using the financial sustainability indicators and measures to support its position as a resilient Council.

### **£454 million of capital investment is planned over the next ten years**

**97.** The extensive capital plan is primarily focused on economic regeneration and the learning estate. £187 million is on the school estate including the new high schools for Galashiels, Peebles and Hawick estimated at £145 million, with the majority of this invested over the next 3 financial years. Borders Innovation Park and Borderlands are the two main areas for economic regeneration.

**98.** The main sources of funding over the ten years for this investment is £115m of specific project funding, £107 million of general capital grants, and borrowing of £220 million. £173 million of borrowing is expected to be undertaken over the next three years to support, in particular, the school estate projects.

### **The Council's ongoing transformation work continues and was refreshed in February 2024 under the SBC Way programme**

**99.** The Council's Fit for 2024 transformation programme reported on its conclusions in February 2024. This had been introduced in February 2019 prior to the pandemic and spanned the pandemic and initial recovery period. The Council set out to generate £30 million of permanent savings during this period and reported permanent savings of £37 million. The programme had identified the need to have a longer term planning horizon and have a more proactive and longer term view of delivering more cost-efficient services.

**100.** The Council reported that the five key themes of Fit for 2024 had been met: service reviews, enhanced community engagement, physical assets, digital investment and process improvement against a backdrop of the Covid-19 pandemic and cost of living crisis.

**101.** Fit for 2024 included a review of each directorate and service. This led to restructuring of services including HR and the Council management team (CMT). The pandemic also triggered the need to speed up planned digital transformation with changes and upgrades to core operating systems including Business World and Office 365, as well as the Pathfinder project to support adult social care and delivering iPads to children across the learning establishment. Work has been ongoing to improve the Council's properties and there has been increased co-locations, including with Police Scotland, Live Borders and NHS Borders now working from some Council sites.

**102.** The Council will continue to develop and adapt its transformation programme to meet the future operating context. It acknowledges that many of the savings so far have come from improvements in 'back office' functions, and going forward the scope of transformation will require to widen to consider delivery of frontline services

**103.** The Council has refreshed its transformation programme, SBC Way which focuses on 9 workstreams, as detailed in [Exhibit 7](#). There are five key drivers aimed at driving the Council in delivering improved outcomes for the Council and its residents whilst continuing to be financially sustainable. These are:

- The Council plan
- Transformation programme
- Future operating model
- Service delivery plans
- People plans.

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## Exhibit 7

### SBC Way workstreams

Workstream	Purpose
Commissioning Workstream	Develop a new robust commissioning framework for the whole Council to ensure that every pound spent by the Council results in the highest possible value for our residents.
Customer and Communities Workstream	Focus on effectively aligning services and Council effort with the needs and priorities of Customers and Communities.
Data Workstream	Develop a Data and Information Strategy which lays the foundation on how the Council will harness the power of excellent data intelligence, helping us

analyse and better understand the information we collect to drive excellent service delivery.

Digital Workstream	Embrace the best possible digital solutions towards being the UK's first smart connected rural region
Financial and Environmental Sustainability Workstream	Develop and implement ambitious projects, practices and policies which maximise the Council's opportunities to reduce and offset the Council's environmental footprint and maintain an overview on the savings enabled by other workstreams to ensure long-term financial sustainability.
People – Culture Workstream	Develop a can-do culture across the Council where everyone feels valued, empowered and inspired to deliver excellence in their roles, teams and services.
People – Structure Workstream	Ensure that Council's Operating model is underpinned by a workforce which is skilled, empowered, developed, motivated and organised to fully meet the Council's priorities and the needs of customers and communities.
Process Re-Design Workstream	Revolutionise the way we operate by creating a more efficient, responsive and citizen-centric organisation, by ensuring that all processes are fit for purpose and contribute value to the Council's customers.
Property and Estates	Evolve, consolidate and modernise all aspects of the Council's estate to ensure it is efficient, fit for purpose and sustainable; and that it facilitates excellent services and accessibility for customers and communities.

Source: Scottish Borders Council

**104.** The transformation work is wide ranging and covers the ongoing work with Live Borders to develop a financially sustainable culture and leisure service, the introduction of a newly published community engagement strategy and also ongoing work to develop care villages. There are regular discussions on transformation by the Council management team, including meeting to focus on this once a month, and regular briefings to members.

**105.** Reporting to the community on the outcomes of transformation could be enhanced. Currently there are a number of active projects being discussed at Council meetings and through the appropriate committees, but a concise overview of milestones and achievements from transformation is not readily available. We will monitor the outcomes from the transformation programme going forward including progress against planned measurable milestones.

## Recommendation 5

Reporting of transformation could be enhanced so that progress against defined measurable milestones and achievements from the SBC workstreams are more clearly reported to the community.

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# 4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

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## Conclusions

The Council refreshed its Strategic People Plan outlining the progress made since the Strategic People Plan was set in 2016. The Council recognises that further work is required to fully align the Strategic People Plan with the Council's future Operating Model, Council and Financial plans to take account of the changing strategic and operational landscape, performance and evolving priorities.

The Council has good examples of using digital technology to improve workforce productivity and improve services.

The Council has implemented, and had success with, several workforce initiatives to try and address some of the workforce challenges facing the public sector. Recruitment and retention of staff remains a risk, similar to many local authorities.

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## Best Value work in 2023/24

**106.** For 2023/24, the scope of Best Value work included conclusions on:

- Workforce Innovation (2023/24 thematic work)
- Council service performance improvement
- Effectiveness of council performance reporting
- Progress made against Best Value improvement actions made in previous years

**107.** As set out in the [Code of Audit Practice 2021](#), Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in parts 3 to 6 of this Annual Audit Report.

## Workforce Innovation priorities

**108.** Annual thematic Best Value work is set by the Accounts Commission. For the 2023/24 financial year, auditors were asked to focus on workforce innovation within the Council. The results of this work were reported to elected

members at the Audit Committee on 23 September 2024. This report will be published on the Audit Scotland website in due course.

**109.** The key findings in the report are:

- In April 2024 the Council undertook a review of its Strategic People Plan outlining the progress made by the Council since the Strategic People Plan was set in 2016. The Council recognise that further work is required to fully align the Strategic People Plan with the Council's future Operating Model, Council and Financial plans to take account of the changing strategic and operational landscape, performance and evolving priorities.
- The Council has good examples of using digital technology to improve workforce productivity and improve services, for example, its innovative workforce management approach for care staff, using Total Mobile, which has reduced administrative burden and provided care staff more time with care recipients.
- The Council has an established approach to agile working, which it monitors and continues to evolve, with council staff highlighting this as a key benefit to working for the council.
- Like many local authorities, workforce is a key challenge. The Council has implemented, and had success with, several workforce initiatives to try and address some of these challenges. The recruitment and retention of staff however remains a recognised risk.
- The Council operates a shared centralised model for services such as finance HR, payroll and property and has integrated joint services with NHS Borders, and arrangements in place with City of Edinburgh Council to provide insurance services, but it has limited arrangements in place for sharing services with other councils. It is currently exploring shared service arrangements with its sports and leisure trust Live Borders and Dumfries and Galloway Council.
- The Council monitors progress with its workforce initiatives, and each service has its own performance indicators. There is an opportunity to enhance the Strategic People Plan however to align these to measure the impact of workforce planning and evidence the delivery of strategic workforce outcomes.

**110.** The audit recommendations from the thematic report, together with the management responses, are included in [Appendix 1](#) of this report.

## **Best Value improvement recommendations from previous years are now closed**

**111.** For the 2022/23 financial year, auditors were asked to focus on the councils' leadership of the development of new local strategic priorities. The 2022/23 Best Value Thematic report contained six improvement recommendations. All recommendations have been closed.



**112.** Three recommendations relating to the refresh of the community plan, updating members training policy and a review of the senior management structure were completed in year through publication of documents and confirmation of the revised management structure.

**113.** The other recommendations related to:

- Performance management framework – we note that whilst the revised framework was published in early 2022, and quarterly reporting on indicators is shared with the Executive Committee, there is ongoing work to revise the suite of indicators. This includes including new indicators for 2024/25 in safer communities and carbon usage, and identifying where indicators should be updated and changing them as required. As these new developments are beyond the scope of the recommendation, we have closed this recommendation. We will continue to review Council performance reporting going forward as part of our annual wider scope work.
- Transformation reporting – we note that the Fit for 2024 transformation programme close out was reported in February 2024. SBC Way is the new transformation programme and the initial information on this was shared in February 2024. A new future operating model is being developed and will continue to evolve. This specific recommendation is now closed.
- People planning aligned with service and financial planning – from 2024/25 people planning is to be aligned to the budget setting processes. This has now been put in place and we now review this as part of the work on financial planning.

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# 5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Conclusion

The Council has a clear vision linked to its outcomes.

The Council has effective and appropriate governance arrangements for delivery of its plans.

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## The Council has a clear vision linked to its outcomes

**114.** In February 2023, the Council approved the Scottish Borders Council Plan from April 2023. This detailed the vision over the next ten years:

- **Improving the wellbeing of citizens within the Scottish Borders and making our region a more sustainable and better place to live, work in and to visit and Developing a Council that is as effective and efficient as it can be.**

**115.** These link to the key outcomes for the Council of:

- Clean Green Future
- Fulfilling Our Potential
- Strong Inclusive Economy, Transport and Infrastructure
- Empowered, Vibrant Communities
- Good Health and Wellbeing
- Working Together Improving Lives.

**116.** For each outcome, there is an additional 2033 Vision which states where the Council wishes to progress over the next ten years, the challenges, opportunities and what the in year priorities are to be taken forward.

**117.** It was agreed that this would form the road map for future Council plans and in February 2024, the plan for 2024/25 was approved. This highlighted the key deliverables towards outcomes achieved in 2023/24 and continues to focus on the six key outcomes, and actions to take place in 2024/25.

**118.** We have concluded that the vision, outcomes and priorities are clearly articulated.

### **Governance arrangements are effective and appropriate**

**119.** The Council's governance arrangements have been summarised in the annual governance statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate. This is informed by our regular attendance at the Audit Committee and review of Council, Executive Committee and other committee papers as appropriate.

**120.** We have concluded that overall, the Council has appropriate governance arrangements in place which support effective scrutiny, challenge and decision making.

### **Changes to the Council management team took place in year**

**121.** During 2023/24, a number of changes took place within the Council management team.

**122.** The Director of Finance was appointed permanently to the role in June 2023, having been acting Chief Financial Officer since autumn 2022. The role of Director of Corporate Governance was created and permanently appointed to in June 2023. The Director for Social Work and Practice and the Director for Strategic Commissioning and Partnerships left their roles with the Council during 2023/24.

**123.** The Joint Director / Chief Officer Scottish Borders Health and Social Care Partnership has oversight of Adult Services. In August 2024 the Head of Adult Services was appointed and is also a member of the Council Management Team.

**124.** The responsibilities from the Director of Strategic Commissioning and Partnerships role have been shared across the other Directors and the Head of Adult Services.

### **ICT Governance arrangements**

**125.** CGI report on contract performance to the External Services/Providers Monitoring Group each quarter. Reports provide detail on transformation progress, a summary of key projects and on service performance.

**126.** As noted in our reporting last year, CGI have not yet undertaken a full disaster recovery test due to factors including available resources and agreement of a convenient time within the business for services to be taken offline. A full disaster recovery session is still to be scheduled and should be progressed to support business continuity.

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# 6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusions

The Council has appropriate performance reporting arrangements in year.

The Council has reported that they were able to maintain service performance levels with some improvements in education indicators and recycling. Challenges exist in indicators relating to looked after children.

The Council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)

The Council is undertaking a major review of culture and leisure services to address financial sustainability challenges.

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## The Council has appropriate performance reporting arrangements in place

**127.** The revised performance management framework was published in early 2022, and quarterly reporting on indicators is shared with the Executive Committee, and there is ongoing work to continue to build the suite of indicators. This includes including new indicators for 2024/25 in safer communities and carbon usage, and identifying where indicators should be updated and changed as required. This will continue to be an iterative process over the medium term to ensure that performance measures remain appropriate.

**128. Quarterly performance indicators:** The Council has established a suite of key performance indicators to help monitor progress against the outcomes detailed in the Council Plan and Community Plan. These indicators are updated quarterly and reported through the Executive Committee. The reports are readily accessible on the Council's website and show actual performance against target performance, performance trend (whether improving or deteriorating) and a brief commentary on performance. Milestones for key projects are also summarised with narrative to draw out key points. On the Council's website there is also an interactive [public performance dashboard](#) by

which members of the public can review the key performance indicators over the last five years. The use of charts and infographics in the reports and the online dashboard make these accessible for the community.

**129. Annual reporting of performance information:** The Council reports on a series of annual performance measures in its Annual Performance Report; the report for 2023/24 was considered at the Executive Committee June 2024 meeting. This detailed expected progress against the milestones in year and identifying what will be taken forward into future years if not completed in 2023/24.

**130.** It summarises the performance indicators and trends for the year. There is limited information on longer trends in the report and that could be beneficial in key areas where change can take longer than a year. It then uses the local government benchmarking framework (LGBF) to highlight performance related to its family group (similar councils in Scotland) and across Scotland as a whole. LGBF information is detailed across the six Council plan outcomes, but it's not always clear how these link to the Council priorities and the Council's own KPIs. There is narrative to give context, and this could be enhanced by linking more explicitly to the Council specific performance reporting and transformation, see paragraph [105](#).

**131.** Although both reports show indicators where there is a deteriorating position and therefore a focus for improvement, there is no specific information in these reports on how these will be addressed. From the minutes of the Executive Committee, it is clear there are discussions on points for improvement. Reporting on remedial actions is discussed with the Council management team and internal management on a periodic basis. Reporting could be enhanced by including in the quarterly and annual report clearer linkages to the actions they are taking to address these areas for improvement.

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## Recommendation 6

Performance reporting can be enhanced by giving more detail and clearer linkages to actions being taken to address areas for improvement identified in the quarterly and annual performance reports.

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### **The Council has reported that they were able to maintain service performance levels with some improvements in education indicators and supporting recycling. Challenges exist in indicators relating to looked after children**

**132.** From review of the reporting in year, performance is broadly in line with expectations and most public performance KPIs over the financial year are rated as 'white' which is defined as 'there has been no significant change since the previous review, and/or progress is satisfactory or as expected'. The Council has maintained and made some areas of improvement in service performance in the following outcomes which are aligned to its Council plan:

- Clean green future – this includes recycling and waste to landfill rates
- Fulfilling our potential – this includes education indicators including attendance rates and learning programme.
- Empowered vibrant communities – this includes indicators relating to community asset transfers and community funding.

**133.** Service performance has been more challenging in relation to two main outcomes from the council plan. In good health and wellbeing indicators relating to looked after children have deteriorated in year. The Council experiences significant financial pressures in relation to residential placements and this was noted in [Exhibit 4](#). Within the working together, improving lives outcome, complaints handling and completing FOI (freedom of information) requests within the statutory deadline have both declined in year. These are all classed as areas for improvement.

### **The Council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)**

**134.** The [Accounts Commission's 2021 Statutory Performance Direction](#) defines the performance information that councils must publish. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

**135.** The Statutory Performance Direction (December 2021) details two indicators on which councils are required to publish information:

#### **Indicator 1: Improving local services and local outcomes**

- its performance in improving local public services, both provided by itself and in conjunction with its partners and communities and progress against these agreed desired outcomes.

#### **Indicator 2: Demonstrating Best Value**

- its assessment of performing against its duty of Best Value, including audit assessment and those from other scrutiny bodies and how it has responded to the assessments.

**136.** In addressing these two indicators, information provided has to be balanced and addressing areas of both good and poorer performance, present information in a timely manner and make it accessible for all the community.

**137.** Our work in 2023/24 has confirmed that the Council's performance reporting arrangements were satisfactory. The Council's covers the requirements set out in the SPI direction issued by the Accounts Commission. The Council continues to improve its public reporting of performance information through clearer alignment of performance information with its key strategic outcomes and by introducing new indicators to better reflect the Council's activities. We have evaluated the Council's arrangements for fulfilling the above requirements and concluded that it is satisfactory.

## The Council failed to comply with the statutory requirement for its significant trading operation, SBc Contracts, to break even over a three year period for external works

**138.** Under the Local Government in Scotland Act (2003) the external trading accounts of significant trading operations have a prescribed objective to break even over a rolling three-year period. The Council has one significant trading operation (STO), SBc Contracts, which provides a range of activities including revenue and capital works for council services and external contracts for other local authorities.

**139.** SBc Contracts reported an operating surplus of £0.158 million in 2023/24. Following technical accounting adjustments for IAS 19 Employee Benefits (including pensions), the final position remained a surplus of £0.144 million for 2023/24 for external works. In year 8.7% of turnover was generated by external work. Despite the surplus in year, there is a three-year cumulative deficit of £0.189 million. Further details are included in [Exhibit 2](#).

**140.** A review has taken place, and it has identified that SBc Contracts will be classified as a trading operation going forward.

## The Council is working with culture and leisure partners to address financial challenges

**141.** Live Borders, who provide culture and leisure facilities on behalf of the Council, has faced financial challenges post pandemic. In 2022/23, £1.03m financial support was provided. In 2023/24, the management fee from the Council was maintained with a previously planned saving removed from the Council's financial plan to provide further financial support to Live Borders. In year a further allocation of £1.5 million was agreed by Council. £1m of this was drawn down in 2023/24 and £500k allocated for 2024/25. In the 2024/25 budget, it was also agreed that the management fee to Live Borders would increase by £1 million on a one-off basis to help address rising energy costs. In March 2024, Live Borders requested a further £600k of financial support to allow them to be a Living Wage employer.

**142.** Live Borders current service model was identified as being unsustainable and a joint transformational change programme was introduced in 2023/24 identifying over 30 proposed operational and strategic actions over the last quarter of 2023/24 and throughout 2024/25. An options appraisal was shared at Council to discuss the nature of the business model for Live Borders going forward. It was agreed in June 2024 to move to a single trust model and proposed that services relating to active schools and sports development to be delivered by the Council.

**143.** The change in delivery model will not directly address the financial challenges faces by Live Borders, and further work on the delivery model will be ongoing by the Council throughout 2024/25. We note that the Council continues to engage with Live Borders, and we will continue to monitor ongoing actions in this area during 2024/25.

**144.** The Jedburgh Facilities Leisure Trust who operates the Laidlaw Swimming Pool and Fitness Centre has faced the threat of insolvency. In August 2024 councillors agreed to provide the final quarterly payment for 2024/25 along with a further £40k to support their short term financial position. The additional funding included conditions which the Trust subsequently accepted which include taking proactive steps to support the longer term financial sustainability of the Trust.



# Appendix 1. Action plan 2023/24

## 2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Land and building assets valuations</b></p> <p>The economic climate means that the carrying value of properties valued on depreciated replacement cost properties (DRC) continues to increase significantly year on year.</p> <p>A desktop revaluation exercise was required to be undertaken by the Council in respect of land and building assets not subject to formal valuation which resulted in a material increase in the carrying value of those assets of £37.7 million.</p> <p>In addition, to support the formal valuation process, movements in asset values resulting should be reviewed to ensure all significant changes are in line with expectations and adequately explained.</p> <p><b>Risk</b> – that assets not subject to formal valuation will have materially changed in value and the balance sheet is misstated.</p>	<p>The Council should carry out an annual exercise to review those land and building assets not subject to formal valuation for any indication of material movements.</p> <p>Finance, estates teams and valuation experts should work together to ensure this review is completed on a timely basis and is sufficiently detailed to provide assurance to management that the carrying value of assets represents fair value and any material movements are included in the unaudited financial statements.</p> <p>All judgements made throughout this process should be clearly documented.</p> <p>A review should be completed by finance and the valuers of the changes in the carrying values of assets resulting from formal valuation exercises to ensure that these are reasonable, in line with expectations and are adequately explained.</p> <p><a href="#">Exhibit 2</a></p>	<p><b>Accepted</b></p> <p>Agreed to undertake annual exercise as recommended.</p> <p><b>Responsible officer</b></p> <p>Chief Officer Finance &amp; Procurement and Chief Officer – Estates, Environment &amp; Infrastructure</p> <p><b>Agreed date</b></p> <p>31<sup>st</sup> March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>2. Significant trading operation – internal charges</b></p> <p>The maximum profit element which has been incorrectly capitalised in 2023/24 is £1.17 million. We have extrapolated this over the period from 2016/17, when the status of SBc Contracts as a STO was last formally reviewed. This would give a maximum error of £6.60 million.</p> <p>The impact of this may require SBc Contracts to review its pricing structure.</p> <p><b>Risk</b> – that if this is not addressed infrastructure assets will be materially misstated</p>	<p>As part of year end processes an analysis of the total profit for internal works completed by SBc Contracts should be carried out. Any non-directly attributable costs and any surplus should not be capitalised. This would ensure infrastructure assets from SBc Contracts internal works are capitalised in line with IAS 16.</p> <p><a href="#">Exhibit 2</a></p>	<p><b>Accepted</b></p> <p>Agreed to ensure that SBc Contracts' internal works are capitalised in line with IAS 16.</p> <p><b>Responsible officer</b> Chief Officer Finance &amp; Procurement</p> <p><b>Agreed date</b> 31<sup>st</sup> March 2025</p>
<p><b>3. Infrastructure assets – Statutory override</b></p> <p>The statutory override relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements.</p> <p><b>Risk</b> - A permanent solution has not yet been agreed and CIPFA believe that this will continue be an area of enhanced scrutiny for local government auditors.</p>	<p>The Council should proactively work with CIPFA LASAAC and the wider local government sector to arrive at appropriate solution for the implementation of accounting for infrastructure assets.</p> <p><a href="#">Paragraph 37.</a></p>	<p><b>Accepted</b></p> <p>Agreed, the Council's finance team will engage with appropriate colleagues with the aim of ensuring the SBC accounting treatment is in line with national approach.</p> <p><b>Responsible officer</b> Chief Officer Finance &amp; Procurement</p> <p><b>Agreed date</b> 31<sup>st</sup> March 2025</p>
<p><b>4. CGI service auditor assurance reports</b></p> <p>Service auditor assurance reports provide assurance over the control environment for outsourced services.</p> <p><b>Risk</b> – without review of these documents there may</p>	<p>The Council should seek a formal service auditor assurance report for CGI to provide the council with additional assurance over the control environment and support timely identification of any risks.</p>	<p><b>Accepted</b></p> <p>Agree to request appropriate documentation from CGI.</p> <p><b>Responsible officer</b> Director of Finance</p> <p><b>Agreed date</b></p>

Issue/risk	Recommendation	Agreed management action/timing
be unidentified control environment risks.	<a href="#">Paragraph 83.</a>	31 <sup>st</sup> March 2025
<p><b>5. Enhancing reporting of transformation</b></p> <p>Transformation work carried out by the Council is key to delivering services in a financially sustainable way going forward.</p> <p><b>Risk</b> – without periodic public reporting on transformation progress the community may feel disengaged from Council’s work.</p>	<p>Reporting of transformation could be enhanced so that progress against defined measurable milestones and achievements from the SBC workstreams are more clearly reported to the community.</p> <p><a href="#">Paragraph 105.</a></p>	<p><b>Accepted</b></p> <p>Progress on milestones will be included on the Council’s website.</p> <p><b>Responsible officer</b></p> <p>Director People Performance and Change</p> <p><b>Agreed date</b></p> <p>31<sup>st</sup> March 2025</p>
<p><b>6. Enhancing reporting of areas for improvement in performance reporting</b></p> <p>The quarterly and annual performance reports identify areas where performance needs improved. There is discussion in Council meetings and internal reporting/briefing to members on how this will be addressed, however reporting to the public could be enhanced.</p> <p><b>Risk</b> – without periodic public reporting on remedial actions for areas for improvement identified in the performance reporting, the community may be unaware of improvements.</p>	<p>Performance reporting can be enhanced by giving more detail and clearer linkages to actions being taken to address areas for improvement identified in the quarterly and annual performance reports.</p> <p><a href="#">Paragraph 131.</a></p>	<p><b>Accepted</b></p> <p>The Executive meeting 10th September 2024 agreed to bringing areas for focus for improvement to all member briefing sessions.</p> <p>Further narrative on areas of focus will be enhanced in the performance dashboard.</p> <p><b>Responsible officer</b></p> <p>Director People Performance and Change</p> <p><b>Agreed date</b></p> <p>31<sup>st</sup> March 2025</p>

## 2023/24 recommendations from the BV thematic report

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Enhancing the Strategic People plan</b></p> <p>The council should ensure that the Strategic People Plan</p>	<p>The council should ensure that any future review and refresh of the Strategic People Plan provides an</p>	<p>Medium and long term forecasting information will be included in the annual strategic People Plan. The</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>is aligned with the council's Operating Model, Council and Financial plans to take account of the changing strategic and operational landscape, performance and evolving priorities. This should include identifying the council's future workforce requirements over the medium to longer term and measurable workforce outcomes that support the council's wider priorities.</p> <p>Risk – There is a risk that the council does not have a consolidated strategic people plan in place to support a systematic and strategic approach to workforce planning.</p>	<p>assessment of the council's future workforce requirements and profile in the medium to long term. In addition, it should identify key outcomes to be delivered under the plan that reflect Specific, Measurable, Attainable, Relevant, Timely (SMART) objectives.</p>	<p>plan will contain SMART objectives that reflect the Councils requirements.</p> <p><b>Responsible officer</b> Director People, Performance and Change</p> <p><b>Implementation date</b> March 2025</p>
<p><b>2. Reporting and monitoring to elected members</b></p> <p>The council has established deliverables as part of its workforce innovation and supporting the delivery set clear timescales and deliverables for the workstreams delivering aspects of the Operating Model review, including the Strategic People Plan. However, there are currently no formal arrangements for how these will be reported to elected members.</p> <p>Risk – There is a risk that members do not have the visibility to monitor and scrutinise deliver of workstreams underpinning the Operating Model review.</p>	<p>The council should ensure there are clear arrangements for the reporting and monitoring of key deliverables to elected members.</p>	<p>The Members Transformation Group has had oversight of the Operating Model workstreams to date and this will continue with the Budget Working Group.</p> <p>The Strategic People Plan will be presented at Council annually.</p> <p><b>Responsible officer</b> Director People, Performance and Change</p> <p><b>Implementation date</b> December 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Monitoring the impact of workforce planning</b></p> <p>The council monitors progress with its workforce initiatives, and each service has its own performance indicators, and while it has recently refreshed its Strategic People Plan, it is not clear how the council intends to align these to measure the impact of workforce planning</p> <p><b>Risk:</b> There is a risk that the council is unable to assess the impact and efficacy of people strategy and underlying workforce plans.</p>	<p>The council's Strategic People Plan should set out how it intends to assess its performance and what metrics it will use (e.g. sickness absence levels, turnover rates, staffing establishment composition) to measure the impact of its workforce planning and initiatives.</p>	<p>Workforce metrics will be included in the Strategic People Plan and reported. Some additional metrics will be included in the quarterly Performance Report that is considered by the Executive Committee.</p> <p><b>Responsible officer</b></p> <p>Director People, Performance and Change</p> <p><b>Implementation date</b></p> <p>March 2025</p>

## Follow-up of prior years recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p><b>b/f 2022/23 AAR</b></p> <p><b>1. Valuation of land and buildings</b></p> <p>Issues were identified with regard to the accuracy and underlying assumptions used during the valuation process. In addition, a demolished asset was not initially identified as part of impairment work.</p> <p><b>Risk</b> – assets are not held at the correct value in the accounts.</p>	<p>The Council should ensure there is a more robust process in place to review valuation assumptions, data used and ensure conclusion are robust. An overarching review to ensure that all valuations make sense should be completed at the end of the process.</p> <p><b>Agreed Action</b></p> <p>2022/23 year end coincided with significant staffing movement in the Council and a new approach in engaging external support to deliver much of the valuation. Officers will undertake a lessons learned exercise to determine what improvements can be</p>	<p><b>Superseded by recommendation 1 2023/24</b></p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>implemented for the 2023/24 audit process.</p> <p><b>Responsible officer</b> Director of Infrastructure &amp; Environment, John Curry</p> <p><b>Agreed date</b> 31 March 2024</p>	
<p><b>b/f 2022/23 AAR</b></p> <p><b>2. Significant trading operation</b></p> <p>The Council has one significant trading operation (STO), SBc Contracts. Under the Local Government in Scotland Act (2003) the trading accounts of significant trading operations have a prescribed objective to break even over a rolling three-year period. SBc Contracts reported an operating surplus of £1.299 million in 2022/23. However, following technical accounting adjustments for IAS 19 Employee Benefits (including pensions), the final position was a deficit for 2022/23 of £75,000 for external works and a three-year cumulative deficit of £0.331 million.</p> <p><b>Risk</b> – that the Council’s significant trading operation activities do not represent best value for the Council.</p>	<p>The Council should carry out a review of SBc Contracts to examine the cost effectiveness of the service provided to ensure that it continues to represent best value for the Council.</p> <p><b>Agreed Action</b> This review has commenced and will be progressed during 2023/24 as part of the Council’s Future Target Operating Model work.</p> <p><b>Responsible officer</b> Director of Infrastructure &amp; Environment, John Curry</p> <p><b>Agreed date</b> 31 March 2024</p>	<p><b>Implemented and closed.</b></p> <p>Work has been ongoing in 2023/24 and was reported to the Executive Committee in September 2024.</p> <p>It has been agreed that the classification of SBc Contracts will change from a Significant Trading Operation (STO) to a Trading Operation.</p>
<p><b>b/f 2022/23 AAR</b></p> <p><b>3. Internal recharges</b></p> <p>The Council has identified that £14.2 million of infrastructure asset additions are included in the accounts and include in this is a profit margin of 16% equivalent to</p>	<p>As part of the review recommended in point 2 above, the Council should also review the accounting treatment of asset additions from work done by SBc Contracts to ensure it</p>	<p><b>Superseded by Recommendation 2</b></p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>£2.3 million. This is not a charge which is wholly attributable in bringing the asset into use. The system reporting has made getting information challenging.</p> <p><b>Risk</b> – the value of the asset is misstated in the accounts.</p>	<p>complies with accounting standards.</p> <p><b>Agreed Action</b></p> <p>Officers can confirm that this will form part of the review of SBc Contracts.</p> <p><b>Responsible officer</b></p> <p>Director of Finance &amp; Procurement, Suzy Douglas</p> <p><b>Agreed date</b></p> <p>31 March 2024</p>	
<p><b>b/f 2022/23 AAR</b></p> <p><b>4. Assets on Common Good Land</b></p> <p>A judicial review concluded that all Council assets built on Common Good land cannot be considered as owned separately from the land they stand on and are therefore Common Good assets. The Council has a number of operational assets which stand on Common Good land.</p> <p><b>Risk</b> – that the Council does not have a formal agreement in place.</p>	<p>The current accounting treatment reflects the substance of the transaction but that the Council should look to establish a formal agreement between the Council and common good funds for the use of the assets.</p> <p><b>Agreed Action</b></p> <p>Officers are committed to progressing this work during the remainder of 2023/24.</p> <p>Responsible officer: Director of Finance &amp; Procurement, Suzy Douglas Director of Corporate Governance, Nuala McKinlay Agreed date: 31 March 2024</p> <p><b>Audit update 2023/24</b></p> <p>Post year end, lease agreements have been put in place for the 3 largest assets and arrangements have been formalised.</p> <p>It is expected these will become right of use assets in the Council's balance sheet as part of the transition to IFRS 16 in 2024/25.</p>	<p><b>Accepted</b></p> <p>Following the implementation of IFRS 16, the accounting treatment for these transactions will be fully reviewed.</p> <p><b>Responsible officer</b></p> <p>Chief Officer Finance &amp; Procurement</p> <p><b>Agreed date</b></p> <p>31<sup>st</sup> March 2025</p>

Issue/risk	Recommendation and Agreed Action	Progress
	We would expect formal agreements to be completed for the other assets in 2024/25.	
<p><b>b/f AAR 2012/22</b></p> <p><b>1. Inquiry Action Plan</b></p> <p>An action plan implementing the recommendations highlighted in the inquiry report into the Council's handling of school assaults accusations was approved by Council at their meeting on 10 March 2022 along with the establishment of a Review Group to steer the progress of the work required.</p> <p>Progress updates were provided to Council at their meetings in June, August, and October 2022 with 26 of the 52 actions points completed to date.</p> <p><b>Risk</b> – the required improvement actions are not being addressed. The Council needs to continue to monitor progress with regards to outstanding actions to ensure that all recommendations from the report are fully implemented.</p>	<p>The Council needs to continue to monitor progress with regards to outstanding actions to ensure that all recommendations from the report are fully implemented.</p> <p><b>In Progress</b></p> <p>The Independent Inquiry Action Plan Update was presented to Councillors in March 2023. At 30 March 2023, of the 54 actions in total, 42 actions were completed, 4 were ongoing and 8 were to be completed at that point.</p> <p>It was agreed at the meeting that the Inquiry Action Plan Group would cease to meet and that any ongoing actions contained in the plan progress as continuous improvement.</p> <p>The Chief Executive was granted delegated authority to monitor and approve any actions deemed to be ongoing.</p> <p><b>Responsible officer</b></p> <p>Chief Executive, David Robertson</p> <p><b>Revised date</b></p> <p>March 2024</p>	<p><b>Implemented and closed.</b></p>
<p><b>b/f AAR 2020/21</b></p> <p><b>4. Non-Domestic Rates</b></p> <p>Our testing found that the calculation of the NDR debtor is not consistent with the Code. Specifically, the</p>	<p>The Council should do further work and analysis to ensure that they are fully consistent with the Code.</p> <p><b>In progress</b></p>	<p><b>Implemented and closed.</b></p>



Issue/risk	Recommendation and Agreed Action	Progress
<p>balance in Note 30 Other Receivables, relating to NDR includes taxpayers' debt rather than what the Council is due to receive from or pay to the Scottish Government. Risk – the Council's reporting to the Scottish Government on Non-Domestic Rates is inconsistent with the Code.</p>	<p>The Council made adjustments within the 2021/22 financial statements to ensure that the carrying value of NDR balances due to the Scottish Government is in line with the Code.</p> <p>Work remains in progress to ensure that disclosures within the financial statements are fully compliant with the requirements of the Code.</p> <p>The 2022/23 audit work identified that, in respect of balances with taxpayers, the NDR year-end net debtor and NDR bad debt provision net to zero and therefore balances due from taxpayers are not recognised in the Balance Sheet, which is satisfactory.</p> <p><b>Management response</b></p> <p>We note your acknowledgement that NDR balances due from taxpayers are not recognised in the Council's Balance Sheet.</p> <p>In terms of achieving full compliance with the code there are further disclosure changes that we were not able to fully implement in 2022/2023 which we intend to apply when preparing the 2023/2024 accounts. We would appreciate the opportunity to discuss these proposals with you in the near future and well in advance of the March 2024 year end.</p> <p><b>Responsible officer</b></p> <p>Director of Finance and Procurement, Suzy Douglas</p>	

Issue/risk	Recommendation and Agreed Action	Progress
	<p><b>Revised date</b></p> <p>March 2024</p>	
<p><b>b/f AAR 2020/21</b></p> <p><b>5. NFI match investigation</b></p> <p>As at September 2021, the Council had not investigated any NFI matches due to ongoing capacity issues in the relevant service areas.</p> <p>NFI includes data matching on business support grants where weaknesses in controls were identified by internal audit.</p> <p><b>Risk</b> – there are fraud and errors undetected without investigating the data matches.</p>	<p>The Council should investigate a sample of recommended and further matches to be assured that they are not indicative of fraud or error.</p> <p><b>Ongoing</b></p> <p>We will continue to review progress for the 2022/23 NFI matches.</p>	<p><b>Implemented and closed.</b></p> <p>Action has been taken for the 2022/23 matches as reported in Section 2.</p>

# Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £435k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
<b>Accounting Misstatements</b>					
1. SBc Contracts infrastructure - over capitalisation	PPE				6.603
	Expenditure	6.603			
2. iPads incorrectly held as prepayment not asset	Prepayments				1.207
	VPFE (asset)			1.207	
<b>Narrative Disclosure Misstatements</b>					
1. When consolidating Live Borders accounts in 2023/24, Live Borders' reserves relating to pensions were consolidated with the Council's unusable reserves in Note 4 Material movements on Consolidation. Under the Code, the Council has a statutory requirement to have unusable reserves, but this statutory requirement does not extend to Live Borders which follows FRS 102 as it is a charity (therefore only has usable reserves). The Council chose not to update for this, and we are satisfied it is not material to the accounts					

# Scottish Borders Council

## 2023/24 Annual Audit Report

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