
FINANCIAL STRATEGY AND RESOURCES 2025/26

Report by Director of Finance

SCOTTISH BORDERS COUNCIL

20 February 2025

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to recommend the financial strategy to be followed by the Council for the next financial year, to confirm the resources available to the Council following the publication of the Local Government Finance Settlement and to identify the financial constraints and major risks to be considered.**
- 1.2 The report also outlines the process which has supported the construction of the draft revenue and capital Financial Plans for 2025/26 as well as the draft plans for future years.
- 1.3 The report highlights that total revenue resources of £400m are available to Elected Members for financial year 2025/26, assuming the Council accepts the 2025/26 settlement offer from Scottish Government. The settlement gives Councils full flexibility to set the Council Tax rate that is appropriate for their local authority area for 2025/26. The 2024/25 Financial Plan assumed a Council tax increase of 10% for 2025/26, the impact of variations in the Council Tax is shown in the tables in paragraph 6.8.
- 1.4 The Council Management Team (CMT) has supported Members to set a corporate revenue and capital budget, meeting identified pressures facing the Council. These pressures have arisen from a variety of factors, the principal pressures included within the plan relate to pay inflation, the ongoing impact of above average inflation in previous years, the anticipated continuing constraints on external revenue and capital funding from central government and ongoing care requirements, especially in children and young people requiring to be looked after and accommodated outwith the authority.
- 1.5 The budget development process has been conducted to ensure that the Financial Plans of the Council are aligned with its business and people planning objectives and the level of resources available to enable delivery of the Council Plan and should be considered within the suite of documents provided today.

- 1.6 The challenging financial landscape across Scottish Local Authorities has been widely acknowledged and the long-term impact across the Scottish Borders should not be underestimated. Future budget gaps will be offset by budget reductions identified and progressed as part of the Council's Transformation programme.
- 1.7 The benefits, in terms of financial stability and effective change management, derived from adopting a longer-term corporate approach to the revenue and capital planning process are widely accepted. In 2022/23 a 10-year revenue financial strategy was developed and the Council has continued with this approach for 2025/26, maintaining the long-term planning horizon for both revenue and capital at 10 years. These strategies, along with the Treasury Management Strategy comprise an interconnected suite of papers with the resultant Financial Plan included for approval on this agenda.
- 1.8 Financial year 2025/26 represents the third year of the current Administration's 5-year Revenue Financial Plan for the Council. It is recommended that Members continue to adopt a longer-term approach to financial planning. Estimates will continue to be updated annually as the detail of the financial settlement from Scottish Government and service costs becomes known.
- 1.9 This report also seeks approval of the financial strategy for the Council covering the period 2025/26 – 2029/30. The strategy provides the overall framework for the financial management of the Council and covers the revenue budget, Capital Investment Plan, treasury management arrangements and the recommended policy on Reserves. Further detail on the long-term Revenue Strategy, Capital Investment Strategy and Treasury Management Strategy are detailed elsewhere on today's agenda.
- 1.10 A risk-based approach has once again been used to assess the level of recommended balances held within reserves.

2 RECOMMENDATIONS

2.1 It is recommended that Council:

- (a) notes the estimated revenue resources for 2025/26 to 2029/30;**
- (b) notes the estimated capital resources for 2025/26 to 2034/35 and the requirement to adhere to the prudential code for capital borrowing;**
- (c) approves the financial strategy set out in section 4.8 of this report, including the recommendation to maintain unallocated reserves at £7.56m for 2025/26, having considered the risk register at Appendix 1; and**
- (d) approves the Change Fund policy attached as Appendix 2.**

3 THE FINANCIAL PLANNING PROCESS 2025/26 TO 2029/30

- 3.1 Financial year 2025/26 represents the third year of the current Administration's 5-year Financial Plan for the Council, covering the period 2025/26 to 2029/30. A corporate approach has again been pursued with a focus on aligning the financial, business and people planning elements of the Council Plan.
- 3.2 A cross party group of Elected Members have been engaged throughout the financial planning process, considering proposals from CMT which have subsequently been considered by an all Member group throughout the process. The Council's Budget Survey was available from 20 December 2024 to 2 February 2025. Feedback from the survey has regularly been fed back to Members to inform their budget considerations, complementing other community engagement activity which has been undertaken during the last year as detailed within the Budget Engagement paper elsewhere on today's agenda.
- 3.3 This paper highlights the anticipated resources available to the Council over the planning period, the anticipated financial constraints, major risks to be addressed and the planning approach which was undertaken in arriving at the position presented today.
- 3.4 As shown in the illustration below, this paper forms part of a suite of reports presented to Council today which include:
 - (a) The proposed 5-year Revenue Plan and 10-year Capital Plan for the Council which details the proposed service budgets provided to enable delivery of the Council Plan;
 - (b) The Long-Term Financial Strategy (Revenue) which provides insight into the assumed revenue position of the Council over the next 10 years and the Capital Investment Strategy which highlights priorities for capital investment over the next 10 years in order to support delivery of the Council Plan; and
 - (c) The Treasury Management Strategy which considers the debt and investment required to finance the Capital Plan considering the longer-term planning horizon and ensuring that the Council continues to operate within prudent, affordable limits.



4 FINANCIAL STRATEGY

- 4.1 The Council, along with all public bodies, faces significant challenges as it aims to provide the best possible services within the resources available. The adoption of a longer-term timeframe for financial planning has previously enabled the Council to plan the delivery of service changes across financial years through modernising services, investing in new technology and in developing a range of strategic partnerships to provide longer term benefits. Despite the annual nature of the financial settlement, this longer-term approach has enabled the required changes to be delivered in a planned manner, mitigating the need for reactive cuts to services. This approach was enhanced for 2022/23 with the introduction of the Long-Term Strategy (Revenue) to assess the potential impact of future funding and service requirements and align revenue and capital planning over a 10-year timeframe. The Long-Term Strategy (Revenue) is updated and issued annually.
- 4.2 The challenging financial environment that Local Authorities are operating within makes it more important to plan change over the medium to long term but also makes it more difficult to balance budgets as inflationary increases and significant increases in demand led care services continue to put pressure on the budget.
- 4.3 The cost-of-living crisis also impacts directly and indirectly on Council services as the need for financial support increases and more early intervention work is required to support families within the region.
- 4.4 Ongoing financial sustainability is a key priority for the Council's Management Team. The Council has experienced significant financial challenges during 2024/25. Higher than anticipated costs in transport, care and pay, as well as challenges delivering the change required to deliver planned budget reductions have all resulted in in-year budget pressures.

These demand and budgetary control issues will require proactive management action in 2025/26 to ensure the Council can operate within resources available.

- 4.5 The Council's Transformation Programme, focussing on the future sustainability of the Council, continues to be developed. This work will shape the service delivery of the Council moving forward, ensuring that it is aligned to the Council Plan and that services are deliverable within the anticipated resources available. The Long-Term Financial Strategy (Revenue) provides scenarios of what the long-term financial position of the Council may look like to provide some guidance to the scale of challenge the Council is likely to face. The Council has developed a Change Fund as detailed in Appendix 2 to provide up front investment to support this work.
- 4.6 Principles underpinning the financial planning process undertaken for 2025/26 include:
- (a) Resources are raised to meet approved service levels in the most effective manner;
 - (b) Officers manage the effective deployment of those resources in line with the Council's objectives and priorities as set out in the Council Plan;
 - (c) The revenue and capital Financial Plans approved by Council provide stability in resource planning;
 - (d) Service changes required to deliver financial sustainability for the Council are managed corporately via the Transformation Programme; and
 - (e) Stakeholder views are taken into account via Elected Member briefings and the budget survey.
- 4.7 The Financial Plan seeks to ensure that the Council's budget is targeted so that it meets the needs of the Council Plan. As well as dealing with current cost and demand pressures, there are a number of different policy issues which also require to be addressed including the need to ensure the budget provides the best possible stimulus to the local economy; provides adequate resources to respond to the current inflationary pressures being experienced; responds appropriately to the wider Climate Emergency declared by the Council in 2020 and the Housing Emergency declared in 2024; and looks after those who are most vulnerable in our society through targeting resources in early intervention and prevention programmes to reduce future demand for public services.
- 4.8 The recommended high level Financial Strategy to be followed over the period 2025/26 – 2029/30 is therefore, to:-
- (a) ensure the long-term stability of the Council by setting a prudent, sustainable budget in line with available resources;**
 - (b) continue to invest in the approved education, community infrastructure and economic growth projects that will raise standards, address the threat of high unemployment levels where possible, improve quality of life for local people and encourage active, healthy lifestyles;**

- (c) work with community planning partners to invest in early intervention and prevention programmes to reduce future demand for services;
- (d) continue to work with local RSLs deploying the affordable housing budget to provide safe warm homes through the Strategic Housing Improvement Plan;
- (e) set a capital programme which keeps debt within prudent, sustainable limits as set out in the Treasury Management Strategy;
- (f) provide for loans charges of £23m in 2025/26 to finance capital investment recognising the long-term implications of capital borrowing. This figure is planned to rise in future years reflecting the Council’s capital plans;
- (g) maximise income while keeping fees charged to service users at an affordable level;
- (h) support the transformation of services and review the level and method by which services are delivered to ensure the Council remains financially sustainable;
- (i) recognise the challenges faced by the organisation and maintain unallocated reserves of £7.56m, 1.9% of net revenue expenditure for 2025/26, as outlined in section 5 below, and in line with the assessed risk register in Appendix 1.

5 RESERVES

5.1 Reserves

The Council maintains a number of funds and balances, known as Reserves, which are reported to Elected Members at regular intervals during the financial year. The Council holds Reserves in order to manage identified risks and provides a contingency against unforeseen circumstances. The existence and management of adequate Reserves is a fundamental aspect of any sound financial strategy. The Financial Strategy and the associated Reserves position is subject to scrutiny by the Council’s external auditors. Table 1 below shows the projected balance of each fund held within Reserves at 1 April 2025.

Table 1 Funds and Balances

BALANCES	01/04/2025 Estimate
	£m
General Fund - Earmarked	
Earmarked Balances (non DSM)	4.241
Earmarked Balances (DSM)	2.585
Allocated Balances	24.768
General Fund (Unallocated Reserve)	7.560
Specific Funds	
Corporate Property Repairs & Renewals Fund	0.000
Insurance Fund	1.273
Plant & Vehicles Renewals Fund	5.407

Pitch & Play Park replacement fund	2.343
Capital Fund (exc. Development Contributions)	0.000
Total	48.177

5.2 The level of Unallocated Reserves has increased slightly since 2024/25 from £7.4m to £7.56m. The total Reserves figure also is broadly in line with figures as at 1st April 2024 and includes within allocated balances the Council's £20m Change Fund.

5.3 Risk

A Corporate Financial Strategy Risk Register (Appendix 1) has again been used as a measure for considering the adequacy of unallocated Reserve levels in 2025/26 and future years. This approach seeks to quantify the risks facing the Council's finances. A review of the major financial risks facing the Council has been undertaken by Senior Finance Officers, the Chief Officer Audit and Risk and the Corporate Risk Officer. This includes: underlying inflation; over-optimistic savings assumptions; delays in delivery of transformation programme; over-optimistic assumptions regarding future Government grant funding; unconfirmed future pay and pension cost increases; the failure of effective budgetary control measures; severe weather events; potential legal and contractual claims; sufficiency of demographic forecasting; delays in implementation of capital programmes and projects; and failure of major external service providers. Six of the 18 risks remain Red-rated after evaluating the effectiveness of internal controls and it should be noted that 40% of the total risk value is covered by the unallocated reserve of £7.56m (2024/25 - 50%). This is indicative of the increased risk profile of the operating environment and the financial instability which the Council and wider Public Sector organisations face at this time.

5.4 Two new risks have been identified this year: one regarding the impact of interest rate movement on the Council's loans charges; and the other relates to the level of funding that the Council will receive from Scottish Government to address the increased payroll costs that the Council will incur following the national increase to Employer National Insurance Contribution rates. The risk of third party providers going out of business due to this latter change is covered within the Supplier Failure risk.

5.5 Unallocated Reserves

The level of Unallocated Reserves held is informed by an assessment of the risks facing the Council. This approach, despite being subject to an element of informed judgement, fundamentally reflects the risks inherent in setting the revenue budget, the reasons why Reserves are held in the first place, the scale and complexity of the organisation and also provides an appropriate transparent rationale for the level of balances held.

5.6 Given the issues identified in the risk register and risks inherent in setting the revenue budget, Members are recommended to maintain an unallocated general fund of £7.56m in 2025/26. The Unallocated Reserve projected at the 31st March 2025 equates to 1.9% of net revenue expenditure and is sufficient to cover 40% of the financial risks identified in the finance risk register in Appendix 1, should they be realised.

6 REVENUE RESOURCES

- 6.1 The total revenue funding available to the Council in 2025/26 is £400.1m as detailed in the table below. 78% (£312.3m) of the total funding for 2025/26 will be made available via Scottish Government in the form of Aggregate External Finance (AEF) and the Learning Estate Investment Programme with a further £4.9m coming from Allocated Reserves and the remaining 21% (£82.9) being generated through Council Tax income.

Table 2: Summary of revenue resourcing within the financial plan

	2025/26 £'000	2026/27 (Provisional) £'000	2027/28 (Provisional) £'000	2028/29 (Provisional) £'000	2029/30 (Provisional) £'000	Total £'000
Aggregate External Finance						
General Revenue Support	247,235	247,623	245,064	244,947	244,830	1,229,699
General Revenue Support (undistributed)	4,264	4,264	4,264	4,264	4,264	21,320
Impact of National Insurance change	4,364	4,364	4,364	4,364	4,364	21,820
Ring fenced grant	3,206	3,206	3,206	3,206	3,206	16,030
Health & Social Care Partnership (H&SCP)	8,288	8,370	8,454	8,538	8,624	42,274
Non-domestic Rates	43,024	43,024	43,024	43,024	43,024	215,120
	310,381	310,851	308,376	308,343	308,312	1,546,263
Funding for new schools through Learning Estate Investment Programme	1,962	3,921	3,511	3,102	3,102	15,598
Reserves	4,859	0	2,375	1,570	0	8,804
Council Tax (Band D £1,491.72 in 2025/26 - 10% increase)	79,510	84,356	89,244	94,533	100,127	447,770
Second Homes Council Tax	3,431	3,427	3,598	3,778	3,967	18,201
Total	400,143	402,555	407,104	411,326	415,508	2,036,636

6.2 The Aggregate External Finance (AEF) settlement 2025/26

Mainstream support for Local Government from the Scottish Government is collectively known as Aggregate External Finance (AEF) and comprises:-

- General Revenue Grant to support expenditure on the complete range of Council Services;
- A distribution of funding from the National Non-Domestic Rates Pool; and
- Ring-fenced grants which must be used for specified purposes.

- 6.3 At the time the settlement is provided not all allocations are confirmed. This is generally where Scottish Government has agreed a quantum of funding to pass to Local Authorities but they have not yet agreed the distribution methodology. We therefore include an estimate of how much of the undistributed funding we will receive, and this will be adjusted as allocations are confirmed. The Scottish Government budget will not be formally agreed by parliament until the end of February and therefore our confirmed funding may change until that point.

- 6.4 The Settlement for 2025/26 confirmed the following resources would be provided by the Scottish Government to the Scottish Borders:

- (a) Revenue Support Grant of £247.3m (including £10.4m of funding committed during 2024/25) and Non-Domestic Rates distributions of £43m along with Specific ring-fenced Grant of £1.9m, providing total grant support of £292.2m to the Council;
- (b) The total specific grant of £1.9m has been confirmed to fund the Pupil Equity Fund.
- (c) In addition to these confirmed figures, Scottish Government have confirmed funding will be made available for the following priorities (national funding figures provided). Maintaining Teacher numbers (£186.5m), Teachers Induction Scheme (£37.6m), Discretionary Housing Payments (DHP) (£99.2m), Criminal Justice Social Work (£86.45m), Additional Support for Learning (£28m), Gaelic (£0.1m) and Scottish Disability Assistance (£3.1m). Budgets will be created during 2025/26 for these areas once funding levels are confirmed.
- (d) The development of the 2025/26 budget has seen close cooperation and joint financial planning between the Council, NHS Borders and the Integration Joint Board (IJB). Key aspects of the budget in this area include a Health and Social Care fund that is once again to be transferred from the NHS to Council via the IJB. This funding has previously been delegated on a permanent recurrent basis to the Council's Social Care function by the IJB and includes a 3% uplift to £8.288m based on NHS funding arrangements for 2025/26.

6.5 The Revenue Support Grant for 2025/26 is £19m more than in 2024/25. £10m of this was committed during 2024/25 for expenditure including pay and Real Living Wage increases for care workers. A further £4m was committed via Scottish Government policy decisions for 2025/26, including 2025/26 Real Living Wage increases for care workers, school meals and community mental health. This left £4.2m to contribute to Council pressures during 2025/26 including pay awards, inflationary increases and demand pressures.

6.6 **Employers National Insurance Contribution**

The UK government announced, as part of the Autumn budget statement, an increase to the Employers National Insurance contribution rate from 13.8% to 15% as well as the level at which payments are first made which has reduced from £9,100 to £5,000. These changes will increase the Council's pay costs by an estimated £4.4m. Within the Financial Plan it is assumed this cost will be fully funded by Scottish Government, however as detailed within the Financial Risk register, there is a significant risk that the Council will only receive part of the funding required, leaving the Council with a permanent budget shortfall. No additional funding or expenditure is assumed within the plan for increased costs within commissioned services.

6.7 One-off Reserves

The Council created a Treasury Reserve through underspends in the Loans Charges budget in previous years which arose as a result of prudent cashflow and treasury decisions. This reserve will be utilised, as intended, over the 5 years of plan to smooth borrowing costs and stop spikes in payments resulting from the progression with the new Schools programme as they come to completion.

The remaining £0.6m being drawn down from Reserves is being utilised to offset one off pressures in the Financial Plan in 2025/26 from the Strategic Contract Movement Reserve.

6.8 Council Tax

The Council Tax in the Scottish Borders is the 5th lowest in mainland Scotland and 7th lowest overall once the island Councils are included. The 2024/25 Financial Plan included an indicative Council Tax increase of 10% for 2025/26, recognising the financial challenges facing the Council and the increased spending power of moving closer to the Scottish Average. This 10% rise generated an additional £7m of funding. The table below shows annual and monthly increases for households of an 8%, 10% and 12% increase, assuming they have no discounts or exemptions applied to their bill. A 10% increase equates to £2.61 per week for an average Band D household.

Table 3: Council Tax Bands at 8%, 10% and 12% increase

Band	A £	B £	C £	D £	E £	F £	G £	H £
2024/25 Total CT charge	904	1,055	1,205	1,356	1,782	2,204	2,656	3,322
2025/26 Annual Charge - 8%	976	1,139	1,302	1,465	1,924	2,380	2,868	3,588
Annual incremental increase	72	84	96	108	143	176	212	266
Monthly incremental increase	6	7	8	9	12	15	18	22
2025/26 Annual Charge - 10%	994	1,160	1,326	1,492	1,960	2,424	2,921	3,655
Annual incremental increase	90	105	121	136	178	220	266	332
Monthly incremental increase	8	9	10	11	15	18	22	28
2025/26 Annual Charge - 12%	1,013	1,181	1,350	1,519	1,996	2,468	2,974	3,721
Annual incremental increase	108	127	145	163	214	264	319	399
Monthly incremental increase	9	11	12	14	18	22	27	33

7 RESOURCING ESTIMATES 2026/27 AND BEYOND

- 7.1 At present, the Scottish Government has only confirmed a one-year Revenue Settlement and therefore has only published draft AEF figures for 2025/26. In planning resources over the next 5 years through the revenue plan and 10 years through the Long-Term Financial Strategy (Revenue), the Council has made assumptions about the levels of funding likely to be available and the level of savings which will be required to balance to these estimates. The assumption for planning purposes is that AEF resources will

be provided on a flat cash basis in each future year of the 5-year plan. These estimates exclude any transfers for new statutory burdens.

7.2 Any movement from these assumptions in future finance settlements will require adjustments to be made to the overall level of growths and/or savings made in the Financial Plan. Despite the absence of firm future revenue figures, the scale of the challenge facing the Council is unlikely to diminish in the foreseeable future and longer-term planning for the delivery of savings, which may have significant lead in times and require large scale organisational change, remains an essential discipline.

7.3 The benefits of longer-term financial planning have previously been promoted by Audit Scotland in their overview report for Local Government in Scotland. Audit Scotland have highlighted the good practise previously implemented by the Council in adopting medium term 5-year financial planning and recommended that this approach be extended to encompass greater use of scenario planning over a longer period. In response, Council officers developed a Long-Term Financial Strategy (Revenue) as part of the 2022/23 budget with an updated strategy for 2025/26 provided elsewhere on this agenda.

7.4 Council Tax

Indicative Council Tax increases of 5% in each future year are included within the 5-year Revenue plan as shown in the table below. These increases are indicative based on the current anticipated funding available to the Council in future years but will be reviewed annually alongside all other available funding to ensure the impact on residents of the Scottish Borders is balanced with service delivery levels.

Table 4: Indicative Future Year Council Tax increases at Band D

Indicative Council Tax rates in Future Years	2026/27	2027/28	2028/29	2028/30
Annual % increase	5%	5%	5%	5%
Indicative Band D annual payment	£1,566.31	£1,644.62	£1,726.85	£1,813.19
Annual increase on Band D charge	£74.59	£78.32	£82.23	£86.34

7.5 Transformation Programme

SBC has a comprehensive Transformation Programme, encompassing a range of projects across all Council services, all of which have financial sustainability at their core. This programme is constantly evolving to ensure that it recognises the changing demands and challenges that the Council faces now and long into the future. There is significant investment in a range of Digital Transformation, as well as many other major projects to deliver more sustainable models of service provision. The Transformation Programme is currently going through major review to ensure that the scale of ambition and anticipated benefits match the Council's immediate and longer-term Financial Plans.

- 7.6 Investment is supported through the Council's £20m Change Fund which funds the upfront investment costs which may otherwise be a barrier to change. The investment is repaid over a number of years through savings generated by the project to ensure the fund is self replenishing. Details on the use of the Change Fund are included within Appendix 2.
- 7.7 The Council's approach to financial management was recognised in the positive Best Value Report produced by the Accounts Commission in November 2024. The report noted that the Council has a 'strong track record of delivering planned savings, a significant proportion of which are recurring.' The increasing difficulty of this is recognised within the Financial Risk Register.

8 CAPITAL RESOURCES AND TREASURY MANAGEMENT

- 8.1 The Council has set an ambitious Capital Plan with anticipated investment of £393m over the 10-year period. £115m of this is within the Learning Estate and includes ambitious plans for 3 High Schools and a further Primary School. A further £62m is proposed to be spent on the Borders Innovation Park and Borderlands, both largely externally funded, while £71m of Council funded expenditure is allocated to Roads and Bridges. £32m is planned for Care Villages within Hawick and Tweedbank and £5m per year from 2028/29 has been included to support the rationalisation, optimisation and decarbonisation of the Council's estate.
- 8.2 In setting its Capital Plan, the Council must adhere to The Prudential Code of Capital Finance (the Code) in Local Authorities as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code was established to both give Local Authorities an element of flexibility but also to ensure they do not over borrow beyond levels that are sustainable over the longer term.
- 8.3 The code requires the Council to set an annual Treasury Management Strategy (TMS) which includes how it will finance its Capital Plans in an affordable and sustainable way. The TMS is approved each year along with the Revenue and Capital Plans and the Capital Investment Strategy.
- 8.4 The requirements of the Prudential Code were updated in December 2017 including the recommendation that Councils publish a Capital Investment Strategy from 2019/20. As such, Scottish Borders Council's Capital Investment Strategy is included elsewhere on this agenda as part of the suite of financial planning papers, and details the capital investment priorities to ensure our assets and infrastructure are best placed to deliver the Council Plan.

CAPITAL FUNDING ASSUMPTIONS

8.5 Capital Settlement

A General Capital Grant is issued to each Local Authority in Scotland as part of the settlement letter each year. The draft settlement confirms General Capital Grant of £11.73m will be provided to the Council in 2025/26. A similar level of funding is assumed throughout the life of the plan.

8.6 When combined with other sources of funding, the total capital funding available over the 10-year plan is estimated to be £393m. The following table summarises the total resources within the proposed Capital Plan and further information on each funding line is provided below.

Table 5: Summary of Capital resourcing within the Financial Plan

	3 year Operational £'000	7 year Strategic £'000	Total £'000	Est. External Funding £'000	Est. SBC Contribution £'000
Specific Grants from Scottish Government	3,155	1,729	4,884	4,884	0
Other External Grants & Contributions	46,455	14,248	60,703	60,703	0
Development Contributions	336	700	1,036	1,036	0
Capital Receipts	4,500	0	4,500	0	4,500
General Capital Grant	33,685	76,797	110,482	0	110,482
Plant & Vehicle (P&V) Replacement	10,500	14,000	24,500	24,500	0
Synthetic Pitch Replacement Fund	2,078	1,892	3,970	3,970	0
Funded from Revenue	1,826	0	1,826	1,826	0
Borrowing	134,235	47,419	181,654	0	181,654
					0
Total	236,770	156,785	393,555	96,919	296,636

8.7 Scottish Government – Specific Capital Grant

The settlement confirms a specific capital grant allocation of £0.508m for Cycling Walking & Safer Streets for 2025/26, a £7k decrease on last year.

8.8 Other External Capital Grants & Contributions

Many projects and programmes are successful in bringing in match funding from a range of external sources such as SportScotland, Historic Environment Scotland, Scottish and UK Governments and Edinburgh and South East Scotland City Deal. These funds each come with specific conditions and are usually time limited. We currently anticipate funding of £96.9m over the 10 years of the Plan, the most significant of which are Borderlands (£46.7m) and the Borders Innovation Park (£12.8m).

8.9 Development Contributions

- (a) Development Contributions are contributions made by private developers for specific infrastructure costs associated with the impact of their development. Legal agreements in place detail the terms of both the location and type of asset. Due to the uncertainty of the timing on payment of these it is not prudent to assume large sums of development contributions being received at the same time as the assets are being constructed. This means the Council is required to either use the General Capital Grant or borrowing to front fund the construction until the contributions are received.
- (b) The proposed Plan includes an assumed £1.0m of development contributions over the next 10-year period.

8.10 Capital Receipts

- (a) Capital Receipts are funds generated from the disposal of capital assets. These funds are held in the Capital Fund and used to either finance new capital expenditure or repay existing loan principal. The estimate is reviewed on a regular basis to determine assets available for disposal and their likely disposal value and timing.
- (b) The Plan assumes £4.5m of capital receipts being generated over first 3 years of the Plan. The assumptions around the deliverability of these will be subject to ongoing review and will be updated in line with the ongoing asset rationalisation work.

8.11 General Capital Grant future years

The total estimated General Capital Grant over the period of the Plan is estimated at £110.5m. Should resources vary from current projections in future years this may require the associated borrowing levels, phasing and prioritisation of projects within the Capital Plan to be revisited.

8.12 Replacement Funds

- (a) A fund was established by the Council in 2004 to ensure resources were in place for the continued replacement of its plant and vehicle fleet. The fund is used to purchase the vehicles and then reimbursed by the department's revenue budgets over the life of the vehicle. The Plan normally assumes purchases of £2m per annum over the period of the Plan however in order to accelerate the work and to make full use of existing resources, this has been increased to £3.5m in each of the first 3 years of the plan. This funding will support operational and financial efficiencies as well as supporting service continuity and reducing the environmental impact of our plant and vehicles.
- (b) A Fund was established by the Council in 2016 to ensure resources were available to provide for the replacement of carpets

on synthetic pitches. The Plan is based on assumed replacement lives of 10 years for each facility.

- (c) A fund has been established by the Council to allow play facilities to be replaced at the end of their useful life. The replacement life is dependent upon the type of play facility.

8.13 Borrowing

- (a) The balance of the funds required for the Plan is secured by borrowing. Local Authorities are able to borrow to fund capital expenditure, or if given specific consent by Scottish Government. When determining the borrowing requirements, the Council must follow the Prudential Code which requires Councils to ensure they are acting prudently and sustainably. The costs of borrowing are charged to revenue via the Loans Charges budget.
- (b) The proposed revenue budget to support capital through loans charges is set out in paragraph 4.8. Decisions to increase capital borrowing require permanent increases to the Loans Fund budget and must be funded by savings or the generation of additional income.
- (c) The proposed Plan includes a total borrowing over the 10-year period of £181m. It is estimated, based on assumptions around cash flow and interest rates, that this is deliverable within the estimated revenue resources. There is a risk if interest rates rise above the assumed levels, this may result in additional charges. This is monitored regularly, as described in the Treasury Management Strategy, to ensure that the borrowing levels are sustainable and affordable.
- (d) The borrowing requirements associated with the first 5 years of the proposed Capital Plan are included within table 6 below. The high level of borrowing over the first 3 years of the Plan is primarily driven by the construction of 3 new secondary schools, a new primary school and two new care facilities. The required increased revenue budgets to pay for the borrowing has been factored into the Financial Plan.

Table 6: anticipated borrowing levels

	2025/26	2026/27	2027/28	2028/29	2029/30
£m	55.1	43.1	36.0	8.2	6.5

9 IMPLICATIONS

9.1 Financial

There are no additional financial implications associated with this report, its content referring specifically to the revenue and capital budgets.

9.2 Risk and Mitigations

- (a) The Council faces a number of risks in setting its Revenue Financial Plan for five years 2025/26 - 2029/30. The main identified risks are set out in the Appendix 1 and are summarised in paragraphs 5.3 and 5.4. The Council faces significant financial challenges, not least the requirement to deliver ongoing savings to balance the revenue and capital plan each year, fund on-going pressure from the demographic change facing the Scottish Borders population, and failure of major external service providers. The maintenance of Reserves to manage such risks is an essential element of any sound financial strategy and the recommended level of Reserves, to act as a contingency, is £7.5m in financial year 2025/26.
- (b) There is an ongoing requirement for robust management action to continue to deliver Financial Plan savings. This is fundamental to ensure the delivery of the proposals set out in the 5-year Financial Plan on time and to the levels expected. The failure to deliver savings in line with the budget represents one of the most significant financial risks to the Council.
- (c) Within the Capital Plan, overly optimistic project management resulting in unrealistic assumptions about time, costs and risks involved continues to pose a risk. This is being mitigated by more intense scrutiny at the initiation phase and reviewing lessons learned from previous projects.
- (d) The key risks associated with the Council's revenue and capital plans will be monitored on a regular basis within the monitoring reports submitted to the Council's Executive Committee.
- (e) The full Financial Strategy Risk Register can be found in Appendix 1.
- (f) In addition to the Financial Strategy Risk Register, Corporate Risk 033 "Financial Sustainability" retains an Amber Risk Score with a Likelihood of 3 (Possible) and an Impact of 3 (Moderate). This Corporate Risk was first established in 2022, and at the most recent review in October 2024, it was highlighted that there were significant financial challenges reported to the Executive Committee in August 2024 (Q1) and November 2024 (Q2). Management actions to contain spend within budget were approved and communicated across the organisation with the aim of managing the overall Council budget back to budgeted levels by year end. There are 23 controls in place to help manage this risk, 14 of which are assessed as being Fully Effective. Work continues to be undertaken to strengthen the remaining Partially Effective Controls to Fully Effective with a view to reducing the Current Risk Score to the Target Risk Score. This Corporate Risk will continue to be reviewed at the required frequency set out within the Council's Risk Management Policy and Strategy 2025-2027 and will be refined to capture relevant developments such as those outlined in this report.

9.3 Integrated Impact Assessment

An Integrated Impact Assessment (IIA) has been undertaken with regard to individual budget proposals, where issues have been identified mitigating actions will be put in place. There are no further equalities impacts arising from this specific report.

9.4 Sustainable Development Goals

The revenue budget will affect the people and economy of the Scottish Borders. It has been designed to be as financially, socially and environmentally sustainable as possible.

9.5 Climate Change

There are no effects on carbon emissions.

9.6 Rural Proofing

This report contains no implications that will compromise the Council’s rural proofing strategy.

9.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

9.8 Changes to the Scheme of Administration or Scheme of Delegation

There are no changes required to either the Scheme of Administration or the Scheme of Delegation.

10 CONSULTATION

10.1 The Council Management Team has fully supported the revenue and capital financial planning process.

10.2 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director People, Performance and Change, the Clerk to the Council and Corporate Communications have been consulted any comments received have been incorporated into the final report.

Approved by

Suzy Douglas
Director – Finance & Procurement

Signature

Author(s)

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Lizzie Turner	Chief Officer Finance & Procurement

Background Papers:

Previous Minute Reference: [insert last Minute reference (if any)]

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Finance can also give information on other language translations as well as providing additional copies.

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