
FINANCIAL STRATEGY AND RESOURCES 2024/25

Report by Director Finance & Procurement
SCOTTISH BORDERS COUNCIL

29 February 2024

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 addressed.**
- 1.2 The report also outlines the process which has supported the construction of the draft revenue and capital Financial Plans for 2024/25 as well as the draft plans for future years.
- 1.3 The report highlights that total revenue resources of £370.2m are available to Elected Members. This includes £3.2m of funding provided by Scottish Government being our share of the £144m made available nationally to Councils that freeze their Council Tax rates at 2023/24 rates.
- 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 ongoing inflationary pressures in transport, utilities and construction costs, the anticipated continuing constraints on external revenue and capital funding from central government and increasing care requirements, especially in children and young people requiring to be looked after and accommodated out with 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. The Financial Plan presented to Council, although balanced, relies heavily on one-off funding to support the first year of the plan allowing the Council time to make difficult decisions on service provision and delivery in a planned and engaged manner. The Transformation Programme of work required to deliver financial stability is detailed elsewhere on the Council agenda today.
- 1.7 A freeze on Council tax rates for 2024/25 at 2023/24 rates was approved by Council on 21st February 2024. Indicative increases to Council tax rates are included within the Financial Plan at 10% for 2025/26 and a further 5% for each following year.
- 1.8 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 2024/25, maintaining the long-term planning horizon for both revenue and capital at 10 years. These strategies, along with the Treasury Management Strategy comprise a suite of papers designed to guide the financial planning exercise undertaken by the Council on an annual basis and feeds into the Financial Strategy 2024/25 and the resultant Financial Plans included for approval elsewhere on this agenda.
- 1.9 Financial year 2024/25 represents the second 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.
- 1.10 This report also seeks approval of the financial strategy for the Council covering the period 2024/25 – 2028/29. 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.
- 1.11 A risk-based approach has once again been used to set the level of recommended balances to be held in contingency.

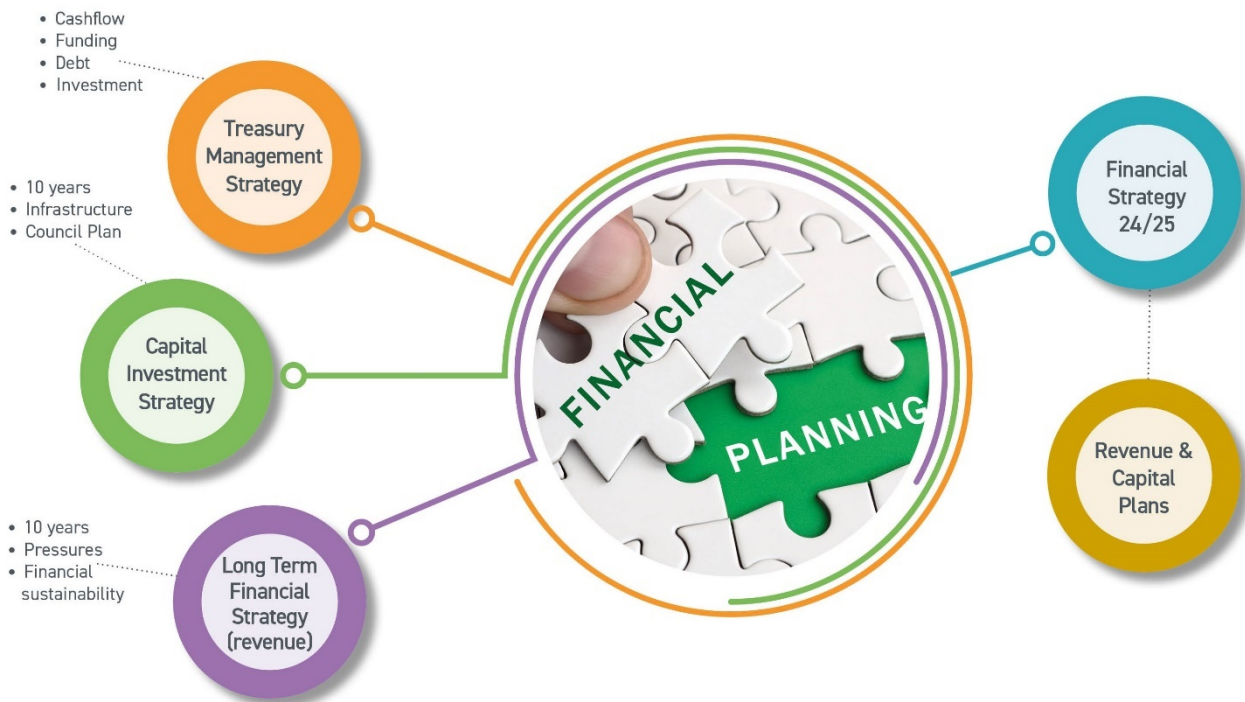
2 RECOMMENDATIONS

2.1 It is recommended that Council:

- (a) notes the estimated revenue resources for 2024/25 to 2028/29;**
- (b) notes the estimated capital resources for 2024/25 to 2033/34 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 c£7.4m for 2024/25, having considered the risk register highlighted in Appendix 1;**
- (d) proceeds to consider the proposed Financial Plan for 2024/25;**
- (e) agrees that any further Scottish Government funding which becomes available for 2024/25, after the Council's Financial Plan is agreed, including the SBC share of the £62.7m additional funding committed by the Deputy First Minister on 21st February, will be repaid to Reserves to partly replenish the one-off funding used to balance the 2024/25 Financial Plan.**

3 THE FINANCIAL PLANNING PROCESS 2024/25 TO 2028/29

- 3.1 Financial year 2024/25 represents the second year of the current Administration's 5-year Financial Plan for the Council, covering the period 2024/25 to 2028/29. 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 30 November 2023 to 31 January 2024 and a survey of secondary school pupils ran from 9 January 2024 to 7 February 2024. Feedback from both surveys has regularly been fed back to Members to inform their budget considerations, complimenting other community engagement activity which has been undertaken during the last year.
- 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. This Strategy is updated and issued annually.
- 4.2 The challenging financial environment Local Authorities are operating within makes it more important to plan change over the medium to long term but also makes it harder to balance budgets as inflationary increases and significant increases in demand led care services continues to put pressure on the resources available. The last 2 years have seen unprecedented inflationary increases in transport, utilities and pay whilst the demand for care and external placements for young people continues to rise.
- 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 It is recognised that COVID-19 has had a long-term effect on the Council's operations. The financial position in 2023/24 has continued to be impacted by additional costs in children's services where, since the COVID-19 pandemic, demand pressures continue to rise. The monitoring reports approved by the Executive Committee throughout 2023/24 have highlighted these pressures arising across Council services and many of these pressures are anticipated to continue into 2024/25 and beyond.
- 4.5 The Fit for 2024 Programme has now been brought to close and a replacement Transformation Programme focussing on the future sustainability of the Council had been developed. This work will shape the service delivery of the Council moving forward, ensuring that it is aligned to the Council Plan and 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.
- 4.6 Principles underpinning the financial planning process undertaken for 2024/25 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 looks after those who are most vulnerable in our society and targets resources through 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 2024/25 – 2028/29 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 RSL's 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 £18.2m (2024/25) 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 reviews level and method by which services are delivered to ensure the Council remains financially sustainable;**
 - (i) to recognise the challenges faced by the organisation and maintain unallocated reserves of c£7.4m, 2% of net revenue expenditure for 2024/25, as outlined in section 5 below, and in line with the assessed risk register in Appendix 1.**
 - (j) use any additional Scottish Government funding, confirmed after the Financial Plan is approved, to partly replenish the Reserves used to balance the Financial Plan in 2024/25.**

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, smooth uneven cash flows and provide 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 2024.

Table 1 Funds and Balances

	1 April 2024 (est £m)
Specific Funds	
Corporate Property Repairs and Renewals Fund	0
Plant and Vehicles Renewals Fund	4.785
Pitch & Play Park Replacement fund	1.875
Insurance Fund	1.027
Capital Fund excl. Developer Contributions	1.151

General Fund – Earmarked	
Devolved School Management	1.402
Earmarked Departmental Reserves (incl. Recovery Fund)	3.779
Allocated reserves	26.518
General Fund – Unallocated Reserves	7.414
Total	<u>47.951</u>

- 5.2 The level of Unallocated Reserves has reduced since 2023/24 although it should be noted that prior to the top up of balances during the COVID-19 period, the general fund balance held in 2021/22 was £6.3m, therefore the forecast reserve of £7.4m at 1st April 2024 represents an increase from that level. The total Reserves figure is broadly in line with figures as at 1st April 2023 however earmarked departmental Reserves have significantly reduced due to the in-year financial position and allocated Reserves have increased due to the creation of a £20m Change Fund following changes to service concession arrangements as approved by Council in February 2023.
- 5.3 A Corporate Financial Risk Register (Appendix 1) has again been used as the basis for setting unallocated Reserve levels in 2024/25 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 and include underlying inflation, over optimistic savings assumptions, over optimistic assumptions regarding future Government grant funding, delays in delivery of transformation plans, unconfirmed future pay and pension cost increases, the failure by managers to enact effective budgetary control, severe weather events, potential legal and contractual claims and unplanned emergencies in approving an appropriate level of unallocated balances.
- 5.4 The level of Unallocated Reserves is directly 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.
- 5.5 **Unallocated Reserves**
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 equivalent to c£7.4m in 2024/25. The Unallocated Reserve projected at the 31st March 2024 equates to 2.0% of net revenue expenditure and is sufficient to cover 50% 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 2024/25 is £370.2m as detailed in the table below. 77% (£285.7m) of the total funding for 2024/25 will be made available via Scottish Government in the form of Aggregate External Finance (AEF) with a further 2.5% (£9.6m) coming through one-off Reserves and the remaining 20% (£74.9m) being generated through Council Tax income.

Table 2: Summary of revenue resourcing within the financial plan

	2024/25 £'000	2025/26 (Provisional) £'000	2026/27 (Provisional) £'000	2027/28 (Provisional) £'000	2028/29 (Provisional) £'000	Total £'000
Aggregate External Finance						
General Revenue Support	227,299	226,873	229,023	229,023	229,023	1,141,241
Council Tax freeze funding for 2024/25	3,220	3,220	3,220	3,220	3,220	16,100
Impact of teachers 3% employer pension contribution	1,802	1,802	1,802	1,802	1,802	9,010
Ring fenced grants	3,206	3,206	3,206	3,206	3,206	16,030
Health & Social Care Partnership	8,047	8,127	8,209	8,209	8,209	40,801
Non-domestic Rates	42,089	42,089	42,089	42,089	42,089	210,445
	285,663	285,317	287,549	287,549	287,549	1,433,627
Funding for new schools through Learning Estate Investment Programme	0	2,435	3,873	3,364	3,065	12,737
Reserves	1,160	0	0	0	0	1,160
Service Concessions	8,411	0	0	0	0	8,411
Council Tax (Band D £1,356.11 in 2024/25 - 0% increase)	72,121	79,922	84,538	89,413	94,567	420,561
Second Homes Council Tax	2,814	3,095	3,250	3,413	3,584	16,156
Total	370,169	370,769	379,210	383,739	388,765	1,892,652

THE AGGREGATE EXTERNAL FINANCE (AEF) SETTLEMENT 2024/25

6.2 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.
- £1.8m of funding is also assumed to fund the 3% increase to teacher's employer pension contributions from 1st April 2024. The Scottish Government have confirmed their intention to pass through related consequential received via the Barnett Formula however it is not yet known if this will be sufficient to fund the pressure in full.

6.3 The Local Government Finance Settlement, received in December 2023 confirmed revenue resources of £13.9 billion nationally in 2024/25. The progression through Parliament is set out below and the implications for the Council budget are set out in section 7 below.

- Local Government Financial Order – Laid in Parliament: 7 February 2024
- Stage 1: 8 February 2024
- Stage 2: 20 February 2024
- Stage 3: 27 February 2024
- Local Government Financial Order Debate: 28 February 2024

- 6.4 The Settlement for 2024/25 confirmed the following resources would be provided by the Scottish Government to the Scottish Borders:
- (a) Revenue Support Grant of £227.2m (including £9.8m for 23/24 pay inflation) and Non-Domestic Rates distributions of £42.1m along with Specific ring-fenced Grant of £3.2m, providing total grant support of £272.5m to the Council;
 - (b) The total specific grant of £3.2m has been confirmed to fund the Pupil Equity Fund (£1.9m) and Criminal Justice Social Work (£1.3m). £10.2m of funding previously ring-fenced by Scottish Government for Early Years has been baselined as part of the Verity House Agreement to reduce the level of ring-fenced funding provided to Local Authorities.
 - (c) In addition to these confirmed figures, Scottish Government have confirmed funding will be made available for the following priorities (national funding figures provided). Teachers Induction Scheme (£37.6m), Discretionary Housing Payments (DHP) (£92.7m), Gaelic (£0.103m), Customer First top-up (£1.41m), Scottish Disability Assistance (£3.5m) and Real Living Wage for Social care (£230m). Budgets will be created during 2024/25 for these areas once funding levels are confirmed;
 - (d) Scottish Government have also confirmed funding of £3.22m (this Council's share of £144m provided nationally) to offset the cost of implementing a freeze on Council tax levels during 2024/25.
 - (e) The development of the 2024/25 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 of £8.047m 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 no uplift based on NHS funding arrangements for 2024/25. Further funding will be made available to provide Councils with a further £230m nationally in 2024/25 in order to deliver a minimum £12 hourly rate for all adult care workers in commissioned services.
- 6.5 In addition to the 2024/25 settlement the deputy First Minister confirmed on the 21st February 2024 that, subject to the overall funding position improving following the UK Government's Spring Budget on 6 March, an additional £62.7m of funding will be available in 2024/25. This includes the estimated £45m of funding anticipated as a result of the UK Government's announcement on Adult Social Care as well as an additional £17.2m. There will be no restrictions made on this funding and our share has not yet been confirmed.

6.6 **One-off Reserves**

The Financial Plan uses one-off Reserves of £9.6m in order to balance the financial position in 2024/25. £8.4m of these reserves had been set aside to support the 5-year revenue plan but were originally intended to be used over a 4-year period. Due to the extreme challenges the Council is facing this full reserve along with an additional £1.2m has been proposed to support 2024/25 budget. This short-term measure has been implemented to allow a planned approach to the required permanent reductions to the Council budget from 2025/26 with effective communication with

communities essential during 2024/25. The use of one-off resources can only buy time to deliver permanent financial sustainability and extends the period over which the Council is living out with its means. It also depletes Reserves going forward which reduces our ability to deal with as yet unknown pressures and the risks detailed in Appendix 1.

6.7 Council Tax

On 21st February the Council accepted additional funding of £3.22m through the 2024/25 Local Government Finance Settlement to freeze Council Tax at 2023/24 levels. This decision was made ahead of the approval of the financial plan to ensure bills can be issued to customers on time.

7 RESOURCING ESTIMATES 2024/25 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 2024/25. 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 the overview report for Local Government in Scotland. Audit Scotland have highlighted the good practise previously adopted 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 2024/25 provided elsewhere on this agenda.

COUNCIL TAX

- 7.4 As detailed in paragraph 6.6, Scottish Borders Council has accepted £3.22m of permanent, additional funding from Scottish Government and frozen its Council Tax for 2024/25 at 2023/24 rates.
- 7.5 Indicative Council Tax increases 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 as low as possible.

Table 3: Indicative Future Year Council Tax increases

Indicative Council Tax rates in Future Years	2024/25	2025/26	2026/27	2027/28	2028/29
Annual % increase	0%	10%	5%	5%	5%
indicative Band D annual payment	£1,356.11	£ 1,491.72	£ 1,566.31	£1,644.62	£ 1,726.85
annual increase on Band D charge	£ -	£ 135.61	£ 74.59	£ 78.31	£ 82.23

7.6 Transformation Programme

The Fit for 2024 Programme has now been brought to close and a future Transformation Programme focussing on the sustainability of the Council has been developed. This work will shape the service delivery of the Council moving forward, ensuring that it is aligned to the Council Plan and deliverable within the anticipated resources available. This will ensure the Council continues to operate within its means over the longer term.

8 CAPITAL RESOURCES AND TREASURY MANAGEMENT

- 8.1 The Council has set an ambitious Capital Plan with anticipated investment of £454m over the 10-year period. £187m of this is within the Learning Estate and includes ambitious plans for 3 High Schools and 2 Primary Schools. A further £75m is proposed to be spent on the Borders Innovation Park and Borderlands and largely externally funded while £71m of Council funded expenditure is allocated to Roads and Bridges. A further £33m is planned for Care Villages within Hawick and Tweedbank.
- 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 £9.8m will be provided to the Council in 2024/25, this is £0.9m less than the funding previously confirmed by Scottish Government. The higher funding amount is assumed to continue for future years 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 £454m. The following table summarises the total resources within the proposed Capital Plan and further information on each funding line is provided below.

Table 4 : 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	4,143	1,729	5,872	5,872	0
Other External Grants & Contributions	52,304	23,765	76,069	76,069	0
Development Contributions	6,176	700	6,876	6,876	0
Capital Receipts	6,861	1,500	8,361	0	8,361
General Capital Grant	33,444	77,763	111,207	0	111,207
Plant & Vehicle (P&V) Replacement - P&V Fund	6,000	14,000	20,000	20,000	0
Synthetic Pitch Replacement Fund	1,985	2,365	4,350	4,350	0
Funded From Revenue	1,940	0	1,940	1,940	0
Borrowing	173,380	46,254	219,634	0	219,634
					0
Total	286,233	168,076	454,309	115,107	339,202

8.7 Scottish Government – Specific Capital Grant

The settlement confirms a specific capital grant allocation of £0.515m for Cycling Walking & Safer Streets for 2024/25, an £8k increase on last year. The proposed 10-year plan assumes total specific grants from Scottish Government of £5.9m over the 10-year period to 2033/34.

8.8 Other External Capital Grants & Contributions

Many projects and programmes are successful in bringing in matched 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 £115m over the 10 years of the plan, the most significant of which are Borderlands (£58.8m) and the Borders Innovation Park (£14.3m).

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 £6.9m 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 £6.9m of capital receipts being generated over first 3 years of the plan with a further £1.5m generated in 2027/28. 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 Capital Grant over the period of the plan is estimated at £111.2m. 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 assumes purchases of £2m per annum over the period of the Plan which will be fully funded.
- (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 budgets.
- (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 £220m. 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 5 below. The high level of loan charges over the first 4 years of the Plan is primarily driven by the construction of 3 new secondary schools, 2 new primary schools and two new care facilities. The required increased revenue budgets to pay for the borrowing has been factored into the Financial Plan.

Table 4: anticipated borrowing levels

	£m
2024/25	75.3
2025/26	62.8
2026/27	35.2
2027/28	34.3
2028/29	2.9

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 2024/25 - 2028/29. The main identified risks are set out in the Appendix 1. 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 address challenges from ongoing COVID-19 response and recovery. 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 £7.4m in financial year 2024/25.

- (b) There is an ongoing requirement for robust management action to further continue to deliver Financial Plan savings. This is fundamental to ensure the delivery of the proposals set out in the five-year Financial Plan on time and to the levels expected by the approved budget. The failure to deliver savings in line with the budget plan represents the most significant financial risk 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 regular monitoring reports submitted to the Council's Executive Committee.
- (e) The full Corporate Financial Risk register can be found in Appendix 1.

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)

Name	Designation and Contact Number
Lizzie Turner	Chief Officer Finance & Procurement

Background Papers: [Item No. 8 - Council Tax - Council - 21 February 2024.pdf](#)
[\(moderngov.co.uk\)](#)

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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