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## FINANCIAL STRATEGY AND RESOURCES 2026/27

Report by Director of Finance

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**SCOTTISH BORDERS COUNCIL**

**19 February 2026**

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### **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 on 13 January 2026 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 2026/27 as well as the draft plans for future years.
- 1.3 The report highlights that total revenue resources of £418m are available to Elected Members for financial year 2026/27, assuming the Council accepts the 2026/27 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.
- 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.
- 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, 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 2026/27 represents the fourth 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 financial settlement from Scottish Government and service costs become known.
- 1.9 This report also seeks approval of the Financial Strategy for the Council covering the period 2026/27 – 2030/31. 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 is 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 2026/27 to 2030/31;**
- (b) notes the estimated capital resources for 2026/27 to 2035/36 and the requirement to adhere to the prudential code for capital borrowing;**
- (c) approves the Financial Strategy set out in section 4.7 of this report; and**
- (d) notes that the unallocated reserves balance is dependent on the 2025/26 year-end position as detailed in section 5 and agrees that unallocated reserves should be maintained at £7.56m for 2026/27, if the year-end position allows, and having considered the Risk Register at Appendix 1.**

### **3 THE FINANCIAL PLANNING PROCESS 2026/27 TO 2030/31**

- 3.1 Financial year 2026/27 represents the fourth year of the current Administration's 5-year Financial Plan for the Council, covering the period 2026/27 to 2030/31. 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. Public engagement on the Budget was extended this year to include Community Conversations in all localities and with Community Council Chairs. Dedicated sessions with hard-to-reach groups were also held and youth engagement in secondary schools expanded. Sessions at colleges and supermarket conversations were held across the Borders in addition to the annual online survey.
- 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 Investment 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 Investment 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 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 Ongoing financial sustainability is a key priority for the Council's Management Team. The Council has again experienced significant financial challenges during 2025/26 and it has been reported to the Executive Committee that the Council will be required to utilise reserves to balance the year-end position unless spend is reduced in the final quarter of the year, indicating that the Council is currently spending beyond its means. Higher than anticipated costs in adult and children's care, 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 have required significant management action during the year resulting in reduced service levels across other Council services. Proactive management action will continue to be required in 2026/27 to ensure the Council can operate within resources available.

- 4.4 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.
- 4.5 Principles underpinning the financial planning process undertaken for 2026/27 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, community engagement events and the budget survey.
- 4.6 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. These include 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.
- 4.7 The recommended high level Financial Strategy to be followed over the period 2026/27 – 2030/31 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 Registered Social Landlords (RSLs) deploying the affordable housing budget to provide**

- safe warm homes through the Strategic Housing Improvement Plan;
- (e) set a Capital Investment Plan which keeps debt within prudent, sustainable limits as set out in the Treasury Management Strategy;
  - (f) provide for loans charges of £27m in 2026/27 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, as set out in the Council's External Charging policy;
  - (h) acknowledge the need for the Council to align with available resources over the medium term;
  - (i) support the transformation of services and review the level and method by which services are delivered to ensure the Council remains financially sustainable;
  - (j) recognise the challenges faced by the organisation and maintains unallocated reserves at £7.56m if reserves are not required to balance the 2025/26 year-end position, if maintained this would equate to 1.8% of net revenue expenditure for 2026/27, 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 Funds and Balances*

<b>BALANCES</b>	<b>Estimated at 31/03/2026 £m</b>
<b>General Fund - Earmarked</b>	
Earmarked Balances (non DSM)	1.254
Earmarked Balances (DSM)	(0.438)
Allocated Balances	25.181
<b>General Fund (Unallocated Reserve)*</b>	7.560
<b>Specific Funds</b>	
Corporate Property Repairs & Renewals Fund	0.000
Insurance Fund	0.805
Plant & Vehicles Renewals Fund	2.457
Pitch & Play Park Replacement Fund	2.850

Capital Fund (exc. Developer Contributions)	0.000
	<b>39.669</b>

*\*assuming no reduction is required to balance the 2025/26 year end position*

- 5.2 Table 1 above shows the projected balance of each fund held within reserves at 1 April 2026 assuming no reduction to reserves is required to balance the 2025/26 year-end position. If funds are required, the General Fund (unallocated balance) will reduce accordingly.
- 5.3 The Draft Financial Plan assumes a £1.2m drawdown from the Council's Change Fund to offset the one-off additional funding required to support Live Borders change programme approved in principle by Council on 20 November 2025.
- 5.4 The total reserves figure has reduced by around £8.5m since the 2025/26 budget was set, reflecting reductions to Earmarked Balances as these were largely used to balance the 2024/25 year-end position as well as a reduction to the Plant and Vehicles Renewals Fund as funding was utilised during 2025/26 to support the purchase of new vehicles. Allocated balances include the Council's Change Fund which currently stands at £17.8m.
- 5.5 **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 2026/27 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.
- 5.6 Risks assessed include: A reduction to Scottish Government funding available; insufficient funding to deliver national policy changes; an increased level of outstanding debt owed to the Council; changes to the tax base impacting on available funding; potential legal and contractual claims; higher than budgeted interest rates; unconfirmed future pay and pension cost increases; the failure of effective budgetary control measures; over-optimistic savings assumptions; sufficiency of demographic forecasting; delays in implementation of capital programmes and projects; failure of major external service providers; and severe weather events.
- 5.7 Five of the 17 risks remain Red-rated after evaluating the effectiveness of internal controls. If the Council is able to balance its 2025/26 in-year position and the Unallocated Reserve remains at £7.56m 39% of the total risk value will be covered by the Reserve. If the unallocated reserve was halved only 20% of the risk value would be covered. In 2025/26 40% of the risk value was covered and in 2024/25 50% of the value was covered. This reduction 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.
- 5.8 **Unallocated Reserves**  
Historically the level of Unallocated Reserves held is informed by an assessment of the risks facing the Council however as resources become

scarcer it has become more difficult to plan the level of reserves available to the Council. This means that once reserves are used, it is exceptionally difficult to replenish them. Reserves are held in recognition of the scale and complexity of the organisation and therefore there is a risk to the Council's ongoing financial sustainability if reserves are insufficient.

- 5.9 If the 2025/26 year-end position is in balance, Members are recommended to maintain an unallocated General Fund of £7.56m in 2026/27. If, as forecast, the year-end position is not in balance, Members are recommended to maintain as high a level of unallocated reserves as possible. An Unallocated Reserve of £7.56m equates to 1.8% of net revenue expenditure and covers 40% of the identified risks whereas a reserve of £3.76m covers 0.9% of net revenue expenditure and 20% of the financial risks identified in Appendix 1, should they be realised.

## 6 REVENUE RESOURCES

- 6.1 The total revenue funding available to the Council in 2026/27 is £418m as detailed in the table below. 78% (£325.8m) of the total funding for 2026/27 will be made available via Scottish Government in the form of Aggregate External Finance (AEF) and the Learning Estate Investment Programme with the 22% (£91m) being generated through Council Tax income and a further £1.2m being used from the Council's Change Fund.

Table 2: Summary of revenue resourcing within the financial plan

	2026/27 £'000	2027/28 (Provisional) £'000	2028/29 (Provisional) £'000	2029/30 (Provisional) £'000	2030/31 (Provisional) £'000	Total £'000
<b>Aggregate External Finance</b>						
General Revenue Support	259,611	256,736	254,527	252,910	251,293	1,275,077
General Revenue Support (undistributed)	2,558	2,464	2,339	2,324	2,309	11,994
Ring fenced grant	3,357	3,357	3,357	3,357	3,357	16,785
Health & Social Care Partnership (H&SCP)	8,454	8,623	8,795	8,971	9,150	43,993
Non-domestic Rates	47,921	47,921	47,921	47,921	47,921	239,605
	<b>321,901</b>	<b>319,101</b>	<b>316,939</b>	<b>315,483</b>	<b>314,030</b>	<b>1,587,454</b>
<b>Funding for new schools through Learning Estate Investment Programme</b>	<b>3,873</b>	<b>3,364</b>	<b>3,064</b>	<b>3,064</b>	<b>3,064</b>	<b>16,429</b>
<b>Reserves</b>	<b>1,200</b>	<b>2,375</b>	<b>1,570</b>	<b>0</b>	<b>0</b>	<b>5,145</b>
<b>Council Tax (Band D £1,618.52 in 2026/27 - 8.5% increase)</b>	<b>87,659</b>	<b>92,778</b>	<b>98,174</b>	<b>103,881</b>	<b>109,911</b>	<b>492,403</b>
<b>Second Homes Council Tax</b>	<b>3,367</b>	<b>3,536</b>	<b>3,713</b>	<b>3,898</b>	<b>4,093</b>	<b>18,607</b>
<b>Total</b>	<b>418,000</b>	<b>421,154</b>	<b>423,460</b>	<b>426,326</b>	<b>431,098</b>	<b>2,120,038</b>

## 6.2 **The Aggregate External Finance (AEF) settlement 2026/27**

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

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

6.3 The Scottish Budget and details of the Local Government Settlement were announced on 13 January 2026, over a month later than in previous years, as a result of the later announcement of the UK budget. As in previous years, at the time the settlement was provided not all allocations were confirmed. This is generally where Scottish Government has agreed a quantum of funding to pass to Local Authorities but has not yet agreed the distribution methodology. An estimate of how much of the undistributed funding we will receive is included in the budget, 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 funding may change until that point, should this result in additional funding being made available this will be reported to Elected Members as appropriate.

6.4 The Settlement for 2026/27 confirmed the following resources would be provided by the Scottish Government to the Scottish Borders:

- (a) Revenue Support Grant of £259.6m and Non-Domestic Rates (NDR) distributions of £47.9m along with Specific ring-fenced Grant of £3.3m, providing confirmed total grant support of £310.9m to the Council;
- (b) The total specific grants include £1.9m to fund the Pupil Equity Fund and £1.4m for Criminal Justice.
- (c) Scottish Government also confirmed that further funding will be made available for Discretionary Housing Payments (DHP), Teachers Pay, Scottish Disability Assistance, Free School Meals Intervention, implementation of the Mansion Tax and Free Personal Nursing Care, however the individual Authority amounts are not yet confirmed and as such only estimates, based on previous allocations, where known, have been included.
- (d) Scottish Government have also confirmed further funding will be made available throughout the year including for Scotland's Summer of Sport, Breakfast Club pilots and school swimming and should this funding be passed to Councils to deliver, budgets will be created during 2026/27 for these areas once funding is confirmed.
- (e) The development of the 2026/27 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 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 2% uplift to £8.45m based on NHS funding arrangements for 2026/27.

- 6.5 Non-Domestic Rates funding increased by £4.9m in 2026/27 following the rates revaluation process and other changes to NDR policies which will be implemented from 1 April 2026. SBC NDR costs are expected to rise by around £1m as a result of the changes giving a net increase of around £3.9m.
- 6.6 As part of the 2026/27 settlement, Scottish Government confirmed corrections to an error in the formula used to allocate funding for Older People to Councils. This changed the way £2.3 billion of funding is distributed and Scottish Borders Council was confirmed as one of the Councils losing funding. Without the protection of the floor mechanism the change would have reduced SBC's share of the allocation by £7m. Through the use of the floor, a mechanism used within the settlement process to provide stability to Councils, the impact of this reduction will be spread over a period of time. The Financial Plan estimates the impact will be spread across the 5 years of the plan estimated at £1.5m funding reduction per year, but the actual impact will depend on a complex range of factors in future settlements.
- 6.7 While the increased funding and changes to NDR have increased the settlement year on year the majority of the additional funding was already committed to expenditure including real living wage uplifts for care workers and contributions towards nationally agreed pay deals. £3.8m of the increase was uncommitted and therefore contributed towards Council pressures including pay awards, non-pay inflation and other service pressures.
- 6.8 **One-off Reserves**  
£1.2m is being drawn down from the Council's Change Fund to offset one-off pressures arising from the additional financial support for Live Borders provisionally approved by Council on 20 November 2025.
- 6.9 **Council Tax**  
Council Tax rates in the Scottish Borders remain the 5th lowest in mainland Scotland and 7<sup>th</sup> lowest overall once the island Councils are included. The 2026/27 plan includes an increase of 8.5% recognising the financial challenges facing the Council. This will provide a further £6.8m to support delivery of crucial Council services. Around 43% of homes in the Borders receive a form of discount or exemption to their Council Tax bill and around 14% receive support via the Council Tax Reduction Scheme programme.

6.10 The table below shows annual and monthly increases for households, assuming they have no discounts or exemptions applied to their bill. The increase equates to £2.44 per week for an average Band D household.

Table 3: 2026/27 Council Tax Bands with an 8.5% increase

<b>Band</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>2025/26 charge</b>	<b>994</b>	<b>1,160</b>	<b>1,326</b>	<b>1,492</b>	<b>1,960</b>	<b>2,424</b>	<b>2,921</b>	<b>3,655</b>
2026/27 Charge	1,079	1,259	1,439	1,619	2,127	2,630	3,170	3,965
annual increase	85	99	113	127	167	206	248	311
monthly increase	7	8	9	11	14	17	21	26

## 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 2026/27 although the Budget this year was accompanied by the results of the Scottish Government's Spending Review which provides a forward planning horizon of three years for the revenue budget and four years for capital.

7.2 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 other than the anticipated reduction resulting from the changes to the Social Care allocation methodologies, 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.

7.3 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.

7.4 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 2026/27 provided elsewhere on this agenda.

## 7.5 Council Tax

Indicative Council Tax increases of 5% in each future year from 2027/28 are included within the 5-year Revenue Plan as shown in the table below. These indicative increases are 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

<b>Indicative Council Tax rates in Future Years</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
<i>Annual % increase</i>	5%	5%	5%	5%
Indicative Band D annual payment	£1,699	£1,784	£1,873	£1,967
Annual increase on Band D charge	£80.93	£84.97	£89.22	£93.68

## 7.6 Transformation Programme

SBC has a comprehensive Transformation Programme, encompassing a range of projects across the Council, all of which have financial sustainability at their core. The Transformation Programme is continually evolving to ensure relevance with the Council Plan and Financial Plan, as well as ensuring ongoing modernisation and improvement of services. A key focus remains on the Flagship Projects that deliver most impact, and these are being added to in order to reflect the budget proposals for 2026/27 and beyond.

- 7.7 Investment is supported through the Council's Change Fund which funds the upfront implementation 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 largely self-replenishing.
- 7.8 Audit Scotland's Financial Bulletin 2024/25 on Local Government in Scotland recognised that "*Costs continue to outpace funding increases, and there remain significant commitments on funding to fulfil both statutory duties and national policy commitments*". SBC continues to manage the impact of this through savings and transformation programmes with the changes required also recognised in the report which confirms "*Councils need to take urgent action to address the sustained and recurring cost pressures associated with delivering services. This will mean carefully considering where services need to be reduced; how service delivery can be fundamentally reconfigured; who is eligible to receive services; and policies on fees and charges*". The increasing difficulty of this is recognised within the SBC's Financial Risk Register.

## **8 CAPITAL RESOURCES AND TREASURY MANAGEMENT**

- 8.1 The Council has set an ambitious Capital Investment Plan with anticipated investment of £424m over the 10-year period. £78m of the Plan remains allocated to the School Estate and includes the balance of £56m for a new Secondary School in Hawick and £16m for the Primary School in Eyemouth. A further £54m is proposed to be spent on the Borders Innovation Park and Borderlands, both largely externally funded with £8m of external funding secured for the Community Regeneration Partnership (previously Levelling Up funding). £69m of Council funded expenditure is allocated to Roads and Bridges, £19m to the Plant and Vehicle Fund and £25m on Land and Property Infrastructure. £31m is planned for Care Villages within Hawick and Tweedbank and £5m in 2028/29 and £15m per year from 2029/30 has been included for new investment. The plan also includes £5.2m for Live Borders approved in principle by Council on 20 November 2025.
- 8.2 In setting its Capital Investment 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 Investment 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 £11.2m will be provided to the Council in 2026/27, a slight reduction on previous years. A similar level of funding is assumed throughout the life of the plan.

- 8.6 When combined with other sources of funding, including significant Council borrowing, the total capital funding available over the 10-year plan is estimated to be £424m. The following table summarises the total resources within the proposed Capital Investment Plan and further information on each funding line is provided below.

*Table 5: Summary of Capital resourcing within the Financial Plan*

Funding source	3 year Operational £'000	7 year Strategic £'000	Total £'000	Est. External Funding £'000	Est. SBC Contribution £'000
Other External Grants & Contributions	52,844	7,861	60,705	60,705	0
Development Contributions	325	700	1,025	1,025	0
Capital Receipts	3,400	0	3,400	0	3,400
General Capital Grant	33,822	78,526	112,348	0	112,348
Plant & Vehicle (P&V) Replacement - P&V Fund	5,049	14,000	19,049	19,049	0
Synthetic Pitch Replacement Fund	3,151	1,419	4,570	4,570	0
Funded from Revenue	2,175	0	2,175	2,175	0
Borrowing	105,047	115,647	220,694	0	220,694
					0
<b>Total</b>	<b>205,813</b>	<b>218,153</b>	<b>423,966</b>	<b>87,524</b>	<b>336,442</b>

### 8.7 Scottish Government – Specific Capital Grant

The settlement confirms no specific capital grant allocation in 2026/27 however allocations for Flood Prevention Works and the Nature Restoration Fund were received as part of the General Capital Grant. An assumed level of funding for Active Travel Infrastructure has also been included within the plan.

### 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 £87.5m over the 10 years of the Plan, the most significant of which are Borderlands (£42.5m) and the Borders Innovation Park (£9.7m).

### 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 Capital Investment 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 £3.4m of capital receipts being generated over the 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 £112.3m. Should resources vary from current projections in future years this may require the associated borrowing levels, phasing and prioritisation of projects within the Capital Investment 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 be 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 funding was accelerated from 2026/27 into 2025/26 in order to purchase available vehicles more quickly, leaving £1m available in 2026/27. 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 4.7. 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 £220.7m. 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 Investment 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 Hawick High School, Eyemouth 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

	2026/27	2027/28	2028/29	2029/30	2030/31
<b>£m</b>	64.0	34.1	6.9	16.5	16.4

## 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 5 years 2026/27 - 2030/31. The main identified risks are set out in the Appendix 1 and are summarised in paragraphs 5.6 and 5.7. The Council faces significant financial challenges, not least the requirement to deliver ongoing savings to balance the Revenue and Capital Investment 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 detailed in section 5.
- (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 Investment 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 Investment 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 its most recent bi-annual risk review was in October 2025 in line with the review frequency for an Amber-rated risk. There are 25 Internal 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 Partially Effective Internal Controls to Fully Effective. Two new Internal Controls were added during the year to reflect developments including national training opportunities and spend plans. These, in conjunction with the existing suite of Internal Controls, are intended to reduce 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 further developments

### **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 Director of Corporate Governance, the Chief Officer Audit and Risk, the Director People, Performance and Change, the Democratic Services Manager and Corporate Communications have been consulted any comments received have been incorporated into the final report.

### Approved by

**Suzy Douglas** Signature .....  
**Director – Finance & Procurement**

#### Author(s)

Name	Designation and Contact Number
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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