

Scottish Borders Council

2024/25 Annual Audit Report



Prepared for Scottish Borders Council and the Controller of Audit
September 2025

Contents

Key messages	3
Introduction	6
Audit scope and responsibilities	7
Audit of the annual accounts	9
Wider scope audit	24
Best Value audit	42
Appendix 1	46
Appendix 2	56
Appendix 3	58
Appendix 4	59

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key messages

Audit of the annual accounts

- 1 The audit opinions on the annual accounts for the Scottish Borders Council (the Council) and its group are unqualified and that the accounts are free from material misstatement for the year ended 31 March 2025.
- 2 There were significant findings identified during the audit. These related to the recognition of the pension asset ceiling and the reclassification of an asset under construction as an operational asset. Audit adjustments required to correct the financial statements were processed by the Council.
- 3 The accounting standard IFRS 16 Leases was introduced from 1 April 2024 for local authorities. Amendments required by the standard were made in the annual accounts, having received support from third party advisors. The required amendments included an opening adjustment of £29 million of liabilities relating to PPP (public private partnership) schools, and £4 million in relation to new right of use assets (formerly operating leases).
- 4 While the unaudited annual report and accounts were issued in line with the statutory requirements, there were delays in providing supporting working papers and audit evidence. This was a combination of resourcing pressures and capacity challenges in the finance team due to unplanned absences.

Wider scope audit

Financial management and sustainability

- 5 The Council has appropriate and effective financial management. In recent years the Council has operated within its annual budget. While facing challenges including inflationary pressures on pay and non-pay costs as well as demand pressures for services, the Council continues to demonstrate sound financial management maintaining general fund reserves in line with the long-term Revenue Financial Strategy. The Council undertakes a risk-based evaluation of unallocated reserves to ensure these remain appropriate in supporting the Council's financial resilience.

- 6 The capital programme plans to invest £394 million over the next ten years with key investments relating to three new high schools and two care villages. On the advice of treasury management specialists, reflecting current higher borrowing costs, the Council has been undertaking short-term (one to five years) borrowing to support this investment. Given the uncertainty around interest rates, it is important that the Council continue to monitor the level of borrowing and the affordability of ongoing associated costs.
- 7 Over the next five years, revenue spend is planned at £2.04 billion, with savings required of £34.2 million (1.7%) over the same timeframe after a 10% increase in council tax in 2025/26 with 5% assumed each year thereafter. A focus must be in increasing the percentage of recurring savings, and the Council is taking actions in 2025/26 to address this.

Use of Resources to Improve Outcomes

- 8 The Council has effective and appropriate arrangements in place for preparing and publishing statutory performance information, with performance compared to prior years and other councils remaining relatively stable.
- 9 Service performance has remained relatively stable and there have been improvements in education indicators. Challenges continue to exist in indicators relating to looked after children with targeted work being undertaken in this area including investing in staffing and infrastructure.
- 10 The Council continues to work with culture and leisure partners to support transformation and address financial challenges. The Council has provided further financial support in year and is currently undertaking consultation on service provision.
- 11 The Hawick Flood Protection Scheme and associated active travel investment projects were substantially complete in the year. The scheme is currently the largest flood protection initiative in Scotland. The Council faced some operational and contractual challenges during the project which resulted in an ongoing dispute with a key third party construction company. This was settled in July 2025 and provision for these costs are included in the accounts. The Council is undertaking a lessons learned exercise over the next 12 months and it will be important that findings from this experience are taken forward.

Vision, Leadership and Governance

- 12** The Council has a clear vision linked to its outcomes.
- 13** The Council has effective and appropriate governance arrangements for delivery of the outcomes in the Council plan.

Best Value audit

- 14** The Council has effective and appropriate arrangements in place for securing Best Value evidenced through the Controller of Audit report to the Accounts Commission in November 2024. There is good progress against the findings in this report.
- 15** The Management Report on themes prescribed by the Accounts Commission reported the Council has a good track record of delivering permanent savings through its previous transformation programme Fit for 2024. It launched its new Transformation programme 2025-2030 in May 2025 and has committed to new reporting arrangements on transformation progress in 2025/26.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Scottish Borders Council's annual accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to Scottish Borders Council, hereafter referred to as 'the Council' and the Controller of Audit, and will be published on [Audit Scotland's website](#) in due course.

Appointed auditor and independence

3. John Boyd, of Audit Scotland, has been appointed as external auditor of the Council for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, John Boyd as engagement lead and the audit team are independent of the Council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the Council, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the Council and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Conclusions on the Council's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the Council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and Whole of Government Accounts return.
- A review of the Council's arrangements for preparing and publishing statutory performance information.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the Council and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on the Council's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the Council from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The Council's responsibilities

10. The Council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements for the Council and its group that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the Council and the Audit Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 4](#).

Audit of the annual accounts

Main judgements

The audit opinions on the annual accounts for the Scottish Borders Council (the Council) and its group are unqualified and that the accounts are free from material misstatement for the year ended 31 March 2025.

There were significant findings identified during the audit. These related to the recognition of the pension asset ceiling and the reclassification of an asset under construction as an operational asset. Audit adjustments required to correct the financial statements were processed by the Council.

The accounting standard IFRS 16 Leases was introduced from 1 April 2024 for local authorities. Amendments required by the standard were made in the annual accounts, having received support from third party advisors. These required amendments included an opening adjustment of £29 million of liabilities relating to PPP (public private partnership) schools, and £4 million in relation to new right of use assets (formerly operating leases).

While the unaudited annual report and accounts were issued in line with the statutory requirements, there were delays in providing supporting working papers and audit evidence. This was a combination of resourcing pressures and capacity challenges in the finance team due to unplanned absences.

Audit opinions on the annual accounts

12. The Council and its group's annual accounts were approved by Scottish Borders Council on 25 September 2025 and certified by the appointed auditor on 25 September 2025. In addition to the Council, the group accounts consolidate the financial results of the Council and its subsidiaries and its interests in joint ventures. These include Scottish Borders Council Common Good Funds, Scottish Borders Council Trust Funds (registered and unregistered), Live Borders and Scottish Borders Integration Joint Board.

13. The Independent Auditor's Report is included in the Council's annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

14. The unaudited annual accounts and some working papers were received on 27 June 2025 in accordance with the agreed audit timetable and statutory requirements. There were delays in providing supporting working papers and audit evidence. This was a combination of resourcing pressures and capacity challenges in the finance team, due to unplanned absences, which had a subsequent impact on the availability of management's appointed valuation experts. This has resulted in significant additional work for both Council finance and the audit team.

Recommendation 1

The full suite of agreed working papers is made available at the start of the audit process, with a quality control check process completed to ensure these are consistent with the annual accounts.

Audit Fee

15. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £349,280. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

16. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

17. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

18. Materiality levels for the audit of the Council and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual accounts. Materiality levels were updated, and these can be seen in [Exhibit 1](#).

Exhibit 1**2024/25 Materiality levels for the Council and its group**

Materiality	The Council	Group
Materiality – set at 2% of gross expenditure (excluding contributions to the IJB).	£10.5 million	£10.7 million
Performance materiality – set at 75% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£7.8 million	£8.0 million
Reporting threshold – set at 5% of materiality.	£0.525 million	£0.535 million

Source: Audit Scotland

Significant findings and key audit matters

19. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the Council is Audit Committee.

20. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

21. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

22. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Pension asset ceiling A pension asset of £195.9 million was included in the IAS (International Accounting Standards) 19 Employee Benefits report prepared by the Council's actuary Hymans Robertson. The actuary used 31 December 2024 data for this report. In the unaudited accounts this was fully recognised in the balance sheet. The Accounting Standard (IFRIC 14) imposes a limit on the maximum amount of surplus which can be recognised. The Council obtained an actuarial calculation to determine if the asset recognised on the balance sheet required to be restricted. This identified an asset ceiling of £0. When this report was reviewed by management, it was interpreted as no restriction was required on the pension asset and the full amount could be recognised, as in previous years. Audit work highlighted that the asset ceiling of £0 meant that none of the pension asset could be recognised. The Accounting Standard restricts the amount of surplus that can be disclosed where an employer's assets are greater than its funded obligations.	The Council obtained a revised report from the actuary which combined the reporting of the IAS19 and IFRIC 14 requirements, rather than reporting them separately. The actuary used 31 March 2025 data for this revised report. The pension asset increased to £201.3 million, and the ceiling remained as £0. In line with requirements of IFRIC 14, the Council has reduced the asset in the balance sheet to £0. See Appendix 2. The unfunded liabilities are correctly stated, and no change was required for this. These changes have been made to the annual accounts, see Appendix 2. This has been classified as a significant finding due to the value of the adjustment.
Hawick Flood Protection Scheme (HFPS) Contingent liability A contingent liability was correctly included in the unaudited annual accounts relating to a mediation process. This process has now been completed. Asset under construction As part of this work, it was identified that the flood protection scheme and the active travel network were operating in line with how they were intended at 31 March 2025. In line with IAS 16 (Property, plant and equipment) this	The mediation process has now been completed and in line with IAS 10 (Events after the reporting period), a provision has been included in the accounts to reflect additional contractual payments of £2.0 million. The Council reviewed the asset and identified that £100.2 million of the asset should be classified as an infrastructure asset, including £98.2 million from assets under construction. These changes have been made to the annual accounts, see Appendix 2.

Significant findings and key audit matters	Outcome
means that the work should be treated as an operational asset.	This has been classified as a significant finding due to the nature and value of the adjustment.

Source: Audit Scotland

Audit adjustments

23. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £0.525 million are outlined in [Appendix 2](#).

Infrastructure and environment income and expenditure

24. The supporting working papers for income and expenditure did not agree to the unaudited accounts. Internal recharges of £8.9 million had not been removed from gross expenditure and income so both were overstated. SBc Contracts trading income and expenditure had not been included in the unaudited accounts. This resulted in gross income and expenditure being understated by £3.5 million. This had no overall impact on the financial position of the Council.

IFRS 16 and service concession arrangements

25. The new IFRS 16 Leases standard was introduced for local authorities from 1 April 2024. The Council undertook work to ensure preparedness for the new standard including work on the completeness of leases, new software for leases and worked with third party advisors. We are satisfied that the opening adjustment of £29 million relating to creditors and assets was correctly stated. A number of adjustments have been made to the financial statements and disclosures relating to IFRS 16 during the audit process.

- A financial model for three PPP schools incorrectly included an estimate for future inflation for contingent rentals, which reduced the overall liability. This is not permitted by the accounting standard, and an adjustment has been made whereby liabilities have increased by £5.5 million. Two PPP models for the remaining two schools were not impacted.
- Expenditure reduced by £1.1 million and right of use assets (which had previously been treated as operating leases) increased by £1.1million. This change was identified prior to the submission of the unaudited accounts and reported to the Audit Committee in June 2025.

- Service concession arrangements expenditure reduced by £3.8 million with creditors reducing by the same amount (and the split between short- and long-term creditors being revised).

26. A number of disclosure changes were made including renaming leases at peppercorn rents as donated assets, and clearer linkages to the balance sheet. The Council has committed to continuing to enhance these disclosures going forward.

Council tax debtors and creditors

27. Within the council tax debtors and creditors, there was a debtor of £7.6 million (and associated bad debt provision of £3.0m) and a creditor of £4.6 million which relates to water charges and sewerage. The Council collects water charges and sewerage on behalf of Scottish Water on an agency basis. Therefore, the debtors and creditors for unpaid water charges and sewerage should not be included in the Council accounts. This was amended in the financial statements and had no overall impact on the financial position of the Council.

Land and buildings assets

28. Land and buildings assets which are not revalued by a valuer in year should be reviewed to ensure that there are no material movements in the carrying value of the assets. A desktop valuation comprising of a sample of assets across all categories was completed, to identify a percentage movement to be applied to similar assets. This was completed by the internal valuer, supported by the external valuer. It indicated that there was material movement in asset values, particularly in respect of those assets valued on a depreciated replacement cost (DRC) basis. An adjustment for this was incorporated into the unaudited accounts.

29. Whilst there were a small number of issues identified from the work above, the net position was less than our reporting threshold. Our audit work did identify areas for improvement:

- Assets which had desktop valuations were not updated with this value, and instead a percentage applied. The actual value should have been applied.
- The rationale for adjustments of some classes of assets was not clearly aligned to the evidence shared by the valuers to show that they were similar and should have the same percentage applied.
- Key judgements made during the process should be clearly documented at the time of decision.

Recommendation 2

A clearer trail of key judgements as part of the asset not subject to formal valuation is required. Processes for evaluating desktop valuations should be strengthened including taking account of the revised guidance due from CIPFA for 2025/26 relating to valuations, which will be available for next year's valuation work.

30. In addition to the corrected misstatements outlined above and detailed in [Appendix 2](#), there were three other differences identified which were greater than the reporting threshold which were not corrected.

Assets valued in year

31. Common good assets were revalued in year. It was identified that one asset on the common good asset register was also on the Council's asset register, therefore duplicated. This related to a 3G pitch of £1.1 million which is on common good land and therefore should not be in the Council's register. This will be corrected in 2025/26.

IFRS 16

32. As part of the IFRS 16 in year adjustments, a charge of £0.9 million relating to in year charges in the PPP model relating to three schools was not adjusted. This will be reviewed for 2025/26.

Group accounts – Live Borders pension asset ceiling

33. The new auditing standard for group accounts means that there is increased interaction between the audit team and Live Borders' audit team. Through this work it was identified that Live Borders has an asset ceiling on the amount of pension asset that could be recognised in its accounts, and the value should be zero. The Council is required to follow its processes and contacted Live Borders regarding this. It was not provided with information regarding how Live Borders was going to treat this asset ceiling and therefore the Council were unable to revise this figure. The expected audit difference in the group accounts, was £4.6 million for both the pension asset and reserves.

34. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material. The Council's management has considered these and has not made adjustments for these in the 2024/25 accounts, as detailed above.

35. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

36. Details of the uncorrected misstatements can be seen in [Appendix 3](#).

Qualitative aspects of accounting practices

37. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

38. The appropriateness of accounting policies adopted by the Council was assessed as part of the audit. These were considered to be appropriate to the circumstances of the Council, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

39. Accounting estimates are used in number of areas in the Council's financial statements, including the valuation of land and buildings assets and the valuation of the pension asset. Audit work considered the process management of the Council has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable, subject to the points raised above.
- There was no evidence of management bias in making the accounting estimates.

40. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in [Exhibit 4](#).

Disclosures in the financial statements

41. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and valuation of the pension asset. As a result of audit work, disclosures to support IFRS 16 were improved to make these clearer.

Group audit

42. The Council is part of a group and prepares group financial statements. The group is made up of five components, including the Council which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on a number of the group's components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams. Group

audit instructions were issued to component auditors, where required, to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's components is summarised in [Exhibit 3](#).

Exhibit 3

Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
Scottish Borders Council	Audit Scotland Fully scope audit of the Council's annual accounts.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2 .
Scottish Borders Council Common Good Funds	Audit Scotland As part of Scottish Borders Council annual accounts Analytical procedures at group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Scottish Borders Council Trust Funds (incorporating 40 non-registered trusts and 4 registered trusts)	Audit Scotland As part of Scottish Borders Council annual accounts Analytical procedures at group level	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Live Borders	Azets Analytical procedures at group level. Review of the work of the component auditor with focused testing of the work on expenditure.	The specific audit procedures required on expenditure (non-pay and staff costs) were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified with expenditure or the audit procedures performed by the component auditor. The pension asset was included in full in the unaudited accounts. The audit process identified this should be capped to zero because of the asset ceiling. See paragraph 33 .

Group component	Auditor and audit work required	Summary of audit work performed
		Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Scottish Borders Integration Joint Board	Audit Scotland Analytical procedures at group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.

Source: Audit Scotland

43. ISA (UK) 600 requires auditors to report the following matters if these are identified or encountered during an audit:

- any instances where review of a component auditor's work gave rise to issues and how this was resolved.
- any limitations on the group audit.
- any frauds or suspected frauds involving group or component management.

44. There were no issues identified from our work regarding the above points.

Other matters to report

45. Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. These matters include suspected or identified fraud, non-compliance with legislation, significant deficiencies in control. From work done throughout the audit, there were no matters identified or encountered on the audit of the Council which required to be reported.

Significant matters discussed with management

46. All significant matters identified during the audit and discussed with the Council's management have been reported in the Annual Audit Report

Whole of Government Accounts (WGA) return

47. The Council is part of the WGA boundary and therefore prepares a return that is used by HM Treasury to prepare the WGA. The National Audit Office (NAO) is the auditor for the WGA and issues instructions outlining audit procedures auditors must follow when auditing a WGA return. The threshold for requiring audit procedures to be performed on the

WGA return was set at £2 billion. The Council is below this threshold and therefore only limited audit procedures are required, and submission of an assurance statement to the NAO. This will be submitted in due course following the completion of the audit.

Significant risks of material misstatement identified in the Annual Audit Plan

48. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 4](#).

Exhibit 4

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to

Risk of material misstatement	Planned audit response	Outcome of audit work
	estimates and assess these for evidence of management bias.	prepare accounting estimates and there was no evidence of management bias. Conclusion: no evidence of fraud caused by management override of controls.
Risk of fraud in the completeness of expenditure Latest financial monitoring reports covering the nine months ended 31 December 2024 have indicated that Scottish Borders Council is projecting an unfunded overspend of £4.6 million against their revised 2024/25 budget as a result of service pressures. Management have implemented an action plan with the aim of reducing the level of overspend faced but there remains a significant risk that Scottish Borders Council will be unable to balance the 2024/25 budget and further one-off measures will be required at the year end to ensure the funding of the overspend including the utilisation of non-earmarked reserves. Service teams may look to defer expenditure to future periods to reduce expenditure recognised in 2024/25 and meet budget expectations.	The audit team will: • Complete focussed audit testing on expenditure transactions recorded in period 1 and 2 of 2025/26 to confirm costs have been recognised in the appropriate period. • Review expenditure accruals for indication of understatement	Audit work performed found: • Expenditure costs were recognised in the appropriate period. • No indications of understatement were identified in expenditure accruals testing. Conclusion: no evidence of fraud in the completeness of expenditure.
Valuation of property, plant and equipment Scottish Borders Council held £794.9 million of property, plant, and equipment (PPE)	The audit team will: • Evaluate the design and implementation of controls over the valuation process.	Audit work performed found: • The design and implementation of controls

Risk of material misstatement	Planned audit response	Outcome of audit work
at 31 March 2024, of which £474.7 million was land and building assets. Scottish Borders Council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated replacement cost (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.	• Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. • Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required.	over the valuation process were appropriate. • The information provided to the valuer was generally accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management is involved in the valuation process and has an appropriate level of oversight. • The data and assumptions used in the 2024/25 valuation process were appropriate. • Management's assessment of assets not subject to a valuation process in 2024/25 was reasonable and concluded there was unlikely to be a material difference to the current value at the year-end. Conclusion: the valuation of PPE is not materially misstated. However, there are areas for improvement in processes. See paragraph 28.
Estimation of the pension asset Scottish Borders Council had a net pension asset of £86.2 million at 31 March 2024. Scottish Borders Council is a member of Scottish Borders Council Pension Fund, a defined benefit pension scheme. Scottish Borders Council Pension Fund is subject to formal valuation	The audit team will: • Evaluate the design and implementation of controls over the pension liability estimation process. • Review the information provided to the actuary and assess this for completeness and accuracy.	Audit work performed found: • The design and implementation of controls over the pension asset estimation process were appropriate. • The information provided to the actuary was accurate and complete. • The actuary had sufficient competence, capability,

Risk of material misstatement	Planned audit response	Outcome of audit work
every three years, which sets out each member's share of the scheme's overall pension liability and contributions for the next three years. The last formal actuarial valuation was carried out at 31 March 2023. An estimation of Scottish Borders Council's share of the overall pension liability is required in each intervening year between formal valuations, and these are carried out by Hymans Robertson. There is a significant degree of subjectivity in the estimation of the pension liability as the estimation is based on specialist assumptions, and changes in the assumptions can result in material changes to the estimation.	• Evaluate the competence, capabilities, and objectivity of the actuary. • Obtain an understanding of management's involvement in the estimation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used by management for the estimation of the pension liability, and challenge these where required. • Audit Scotland uses PwC as an auditor's expert to inform the planned audit procedures outlined above. Therefore, the audit team will also review the information provided by PwC and reflect this in the planned audit procedures where required.	and objectivity to perform their work. • Management is involved in the estimation process and have an appropriate level of oversight. • The data and assumptions used in the estimation process were appropriate. • The information provided by PwC was reviewed and this reflected in the planned audit procedures, where required. Conclusion: the estimation of the pension asset is not materially misstated. Audit work identified that an asset ceiling had to be applied due to the accounting standard, IFRIC 14. The pension asset has been capped at £0. Please see the significant findings in Exhibit 2.

Source: Audit Scotland

49. In addition to the significant risks of material misstatement in [Exhibit 4](#), the following have been identified as risks of material misstatement in our Annual Audit Plan.

- **IFRS 16 Leases:** The Council implemented the new standard on 1 April 2024. We reviewed the accounting treatment and financial statements disclosures to ensure compliance with guidance and reported our findings in paragraph [25](#).
- **Accounting basis and treatment of capitalised internal charges:** In 2023/24, we highlighted that the Council had been incorrectly capitalising internal profits within property, plant and equipment additions. We completed a review of charges capitalised into property, plant and equipment and any year-end adjustments made by management to ensure that these reflect only directly

attributable costs to the relevant projects. No issues were identified from this work.

Prior year recommendations

50. The Council has made good progress in implementing the agreed prior year audit recommendations. One action was not yet fully implemented, and a revised response and timescale has been agreed with the Council and is outlined in [Appendix 1](#).

Wider scope audit

Audit approach to wider scope

Wider scope

51. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

52. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the Council has in place for each of these is reported in this chapter.

Significant wider scope risk

53. Audit work has been performed in response to the wider scope risk identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 5](#).

Exhibit 5 Wider scope risk identified in the Annual Audit Plan

Wider scope risk	Planned audit response	Outcome of audit work
Financial sustainability Scottish Borders Council continues to operate in an increasingly complex and challenging environment where they aim to provide the best possible service within the resources available. Latest financial monitoring reports covering the nine months ended 31 December 2024 have indicated that the Council is projecting an	The audit team will: • Review the Council’s annual budget setting arrangements. • Review and assess the Council’s budget monitoring arrangements. • Review the Council’s medium to longer-term financial planning including alignment to strategic priorities.	Audit work performed found: • The Council delivered a balanced position in year against a net revenue budget of £391.3 million. • Whilst savings targets were achieved, the majority were on a non-recurring basis, and these have rolled forward into the 2025/26 revenue plan. • New transformation plans have been approved for

Wider scope risk	Planned audit response	Outcome of audit work
unfunded overspend of £4.6 million against their revised 2024/25 budget as a result of service pressures experienced across the Council. Management have implemented an action plan with the aim of reducing the level of overspend faced but there is a significant risk that the Council will be unable to balance the 2024/25 budget and further one-off measures will be required at the year end to ensure the funding of the overspend including the utilisation of non-earmarked reserves. As part of the 2025/26 budget process management will need to consider the impact of the ongoing financial pressures facing the Council and agree a robust delivery plan for savings in order to ensure its continued financial sustainability.	Complete a review of the Council's financial position, transformation plans and delivery of planned savings.	the period 2025-2030. Greater linkages to savings from transformation will be reported going forward. The Council has developed medium and longer-term financial plans, and these are linked to its Council Plan and priorities. Conclusion: The Council recognises the financial challenges facing the organisation, with new actions to address recurring savings. There are currently appropriate measures in place to achieve financial sustainability over the medium to longer-term, but the budget pressures are increasing.

Source: Audit Scotland

Conclusions on wider scope audit

Financial Management and Financial Sustainability

Conclusions

The Council has appropriate and effective financial management. In recent years the Council has operated within its annual budget. While facing challenges including inflationary pressures on pay and non-pay costs as well as demand pressures for services, the Council continues to demonstrate sound financial management maintaining general fund reserves in line with the long-term Revenue Financial Strategy. The Council undertakes a risk-based evaluation of unallocated reserves to ensure these remain appropriate in supporting the Council's financial resilience.

The capital programme plans to invest £394 million over the next ten years with key investments relating to three new high schools and two care villages. On the advice of treasury management specialists, reflecting current higher borrowing costs, the Council has been undertaking short-term (one to five years) borrowing to support this investment. Given the uncertainty around interest rates, it is important that the Council continue to monitor the level of borrowing and the affordability of ongoing associated costs.

Over the next five years, revenue spend is planned at £2.04 billion, with savings required of £34.2 million (1.7%) over the same timeframe after a 10% increase in council tax in 2025/26 with 5% assumed each year thereafter. A focus must be in increasing the percentage of recurring savings, and the Council is taking actions in 2025/26 to address this.

54. The audit work performed on the arrangements the Council has in place for securing sound financial management found that these were generally effective and appropriate.

A balanced budget was set for 2024/25, and a balanced year end position was achieved

55. The Council approved its 2024/25 budget in February 2024. The budget was set at £370.2 million. This included the use of £9.6 million of reserves (£1.2 million to support treasury management and £8.4 million of service concession reserves). It had been intended that the service concession reserves savings would be used over 4 years but had to be budgeted in 2024/25 to address significant pressures in year.

56. Several adjustments were made to the budget throughout the year including the receipt of additional grant income and budget adjustments including the use of earmarked balances. Savings of £9.3 million were planned which included non-recurring savings of £4.9 million from previous years.

57. The actual year end budget was £391.3 million, and the actual outturn was also £391.3 million which represented a balanced year end outturn position.

Budget setting and monitoring processes are effective

58. The Council continues to set a balanced budget each year. A suite of budget papers is produced annually. This includes the long-term financial strategy, capital investment strategy, treasury management strategy and medium to long-term plans for revenue and capital investment. The people plan now also feeds into these papers. A level of planned unallocated reserves is set at the start of the year in line with its financial strategy.

59. The Council has an Executive Committee with 17 members, half of all Council elected members and representative of all political parties. This

operates as the overall strategic committee for the Council and has cross-party membership. As in previous years, a cross-party working group was established to support the delivery of the Council budget. This facilitated early discussions that enabled scenarios and options to be worked through, and which areas of transformation to prioritise. The Controller of Audit Report (November 2024) recognised this as an example of effective cross party working.

60. The Executive Committee receive quarterly revenue, capital and reserve monitoring reports. There are good explanations for significant variances against budget to allow scrutiny of the Council's finances and to take actions as required to address budget pressures.

61. We concluded that there are effective arrangements in place for the arrangements that support sound financial management, and effective scrutiny and challenge provided by the Executive Committee.

The level of reserves has reduced in year in line with plans

62. Overall usable reserves were £72.4 million at 1 April 2024 and it was planned that at 31 March 2025 usable reserves would be £53.0 million. The main planned movements were in the General Fund. The year end position is consistent with that planned at the start of the year.

63. The year-end balance of the General Fund (£42.9 million) consists of three main streams: the Change Fund, treasury reserve (£8.7 million) and unallocated (non-earmarked) balances which increased from £7.2 million to £7.6 million.

64. The £20 million Change Fund was agreed in the 2023/24 budget. The Council identifies this as a crucial part of its long-term revenue strategy and transformation programme. The fund aims to be self-replenishing by providing upfront investment to delivering change and modernisation with payback expected over a three-to-five-year period. £1 million of funding has been deployed in 2024/25 including supporting IT related projects, CCTV and a review of culture and leisure service.

65. The unallocated balance at year-end is £7.6 million. This compares with £7.4 million which was detailed in the financial strategy for 2024/25. Unallocated reserves are 1.94% of net revenue expenditure of £391.3 million. Management considers that this level of reserve reflects a suitable contingency to contribute towards any unanticipated pressures and uses the financial strategy risk register to identify an appropriate balance of unallocated reserves.

66. The financial strategy risk register is produced as part of the suite of budget papers. This identifies risks over the five years of the revenue plan and the associated cost of these risks materialising. For example, every 1% increase in pay pressures not budgeted would result in an additional cost of £2.0 million. Costs are applied to the risks and then this total is compared to the unallocated reserves. In 2024/25, it was estimated that

unallocated reserves would be able to address 50% of the value of the risks identified. The Council looks at this from the perspective of what would happen if these risks were to materialise at the same time, rather than including probabilities into this assessment.

67. We noted that the financial strategy risk register for 2025/26 identifies that unallocated reserves would cover 40% of the risks identified in the budget setting process for 2025/26. The Council should continue to ensure that given the focus on the reserves, it is important that the "risk cost/price" estimates are subject to appropriate scrutiny and review given that the percentage of risks which can be covered by these reserves has fallen from almost 60% in 2023/24 to 40% for 2025/26.

68. We are satisfied that there is clear reporting of the reserves and that they are regularly reviewed to confirm they remain at an appropriate level throughout the year. The financial strategy risk register was noted as good practice in the Controller of Audit report.

69. Unallocated reserves (as a percentage of net budgeted revenue) has fallen over the last ten years as detailed on the Local Government Benchmarking Framework (LGBF) website (from 4.6% in 2013/14 to 2% in 2023/24). This reduction whilst greater than the national average follows the same downward trend. The Scottish average has dropped from 3.7% to 2.3% over the same period. We recognise that the level of unallocated reserves is dependent on the Council's approach to earmarking funds. With the sustainability challenges faced across the public sector using the financial sustainability indicators and measures to support its position as a resilient Council. These indicators are included in the annual performance report.

Savings targets were met in 2024/25, but only 41% were delivered on a permanent recurring basis

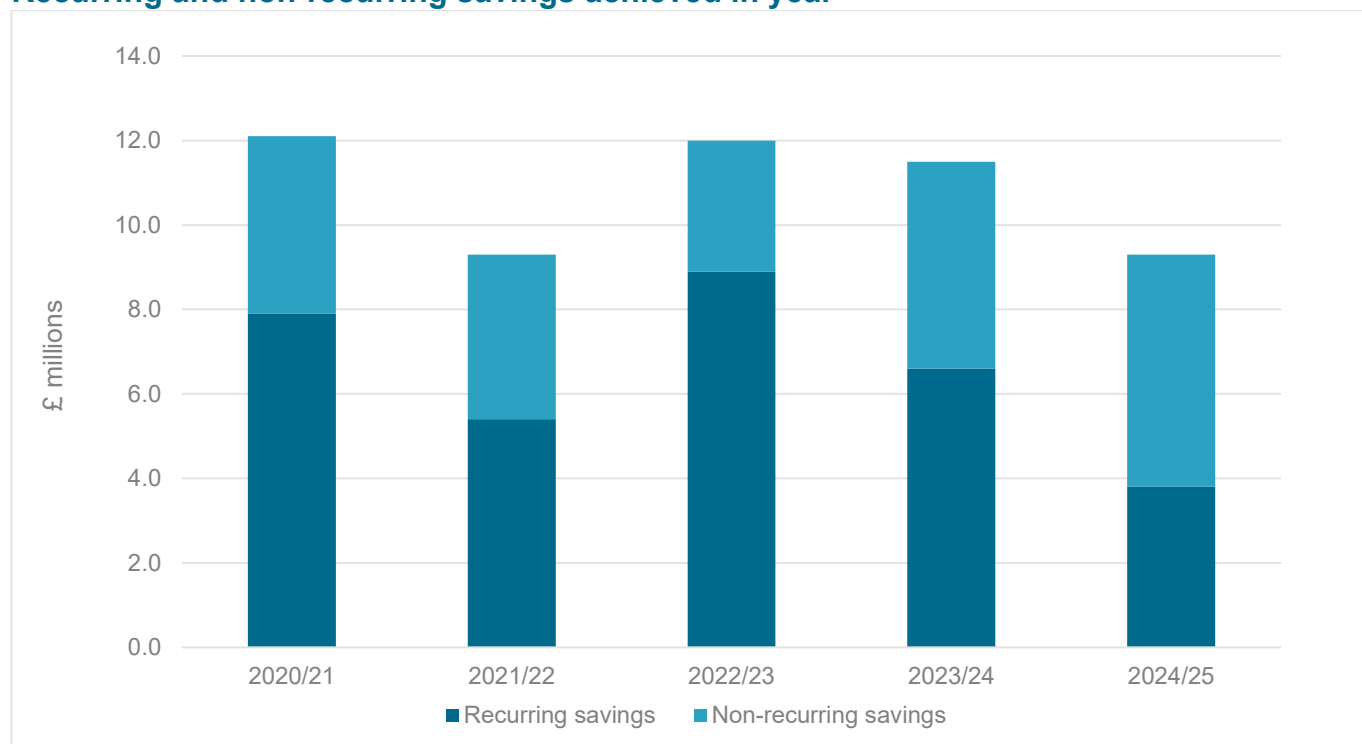
70. In 2024/25, whilst all savings were achieved, only £3.8 million was on a recurring basis (41%; 58% 2023/24) with the remainder £5.5 million achieved on a non-recurring basis (59%; 42% 2023/24). Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years, see [Exhibit 6](#).

71. The majority of the savings in 2024/25 were to be made in the finance, infrastructure and environment and resilient communities directorates. This included corporate savings to be delivered Council wide. All directorates contributed to permanent savings. The main areas where savings were made on a temporary basis were £3.6 million of digital and corporate transformation savings.

72. The £5.5 million of savings made on a temporary basis have rolled forward into 2025/26 and put increased pressure on delivery of savings in 2025/26.

Exhibit 6

Recurring and non-recurring savings achieved in year



Source: Scottish Borders Council annual accounts 2020/21 to 2024/25

The 2025/26 budget faces increased savings pressures

73. In 2025/26, net revenue expenditure is forecast at £400.1 million. Savings were estimated at £2.9 million with additional pressures of £0.5 million identified in early 2025/26 relating to IT. Combining these with the brought forward savings of £5.5 million from 2024/25 trebles the challenge to £8.9 million savings required in year. Further the plan required the release of £4.9 million of allocated reserves to support the financial plan (£4.24 million and £0.62 million from the Treasury Reserve and the Strategic Contract Movement Reserve respectively).

74. The increased savings target increases the risk that savings will not be made on a recurring basis in year and will roll forward into future years. There are already increased future savings challenges with £34.2 million required across 2025/26 - 2029/30. The Controller of Audit report identified the need to focus on ensuring recurring savings are made each year.

75. Management recognises the need to focus on recurring savings. Previously corporate savings were held centrally. In a change from previous years, these have been allocated directly at the start of 2025/26 and built into the spend plans for directorates. At 30 June 2025, £2.7 million of savings had been delivered permanently, and we will monitor progress in the delivery of further recurring savings throughout the year.

Capital investment continues to increase in year with a further £394 million due to be invested over the next ten years

76. Total capital expenditure in 2024/25 was £109.4 million against a revised budget of £113.7 million. Whilst there was an underspend on the planned budget, there is still a significant increase in capital investment from 2022/23 and 2023/24 when £63.5 million and £90 million respectively was spent. The Hawick Flood Protection Scheme and associate active travel network were substantially complete in year. £67.8 million was invested in building new high schools in Galashiels, Peebles and Hawick (which started in year) and completing Earlston Primary School.

77. The extensive capital plan is primarily focused on economic regeneration, social care and the learning estate. A further £394 million is scheduled to be invested in capital over the 10 years from 2025/26 to 2034/35. This includes a further £113.5 million on the school estate with all projects expected to be substantively completed in the next three years. £31.9 million is scheduled to be invested in care villages in Tweedbank and Hawick over the next three years. Borders Innovation Park and Borderlands are the two main areas for economic regeneration.

78. The main sources of funding over the ten years for this investment is £65.6m of specific project funding, £110.5 million of general capital grants, and borrowing of £181.7 million. £134.2 million of borrowing is expected to be undertaken over the next three years to support, in particular, the school estate projects.

Net borrowing increased by £102 million in 2024/25, with short-term borrowing increasing by £50 million

79. The Council can borrow money to support capital investment. £156 million of new PWLB loans (Public Works Loan Board also known as the UK Government Debt Management Office) were taken out in year. £54 million of loans were repaid in year. This was made up of £14 million of stepped loans which were paid off early as the providers were seeking to increase interest rates, and £40 million of PWLB loans which had been taken out in 2023/24.

80. Of the new loans taken out in 2024/25, £90 million is due to repaid in 2025/26, and £66 million due to repaid between two and five years. The Council works with its treasury management advisors to determine the most appropriate borrowing arrangements to support the Council's needs.

81. The treasury management advisors continue to advise the use of short-term borrowing given the expectations that in the medium-term interest rates will fall which will then make longer-term borrowing more attractive. The advisors provide forecasts for both interest rates and rates associated with PWLB borrowing to support the Council's decision making.

82. The Treasury Management Strategy 2024/25 identified the need for £75.3 million of borrowing with net borrowing in year £28 million more than

this figure. The total capital finance required in year in the plan was £121 million and the remainder was financed by grants and other contributions. Historically the Council has used cash balances and reserves to fund capital expenditure, hence the Council remains under borrowed against the limits detailed in the Treasury Management Strategy 2024/25.

83. Total external debt, which includes the Council's long-term liabilities, was within the authorised limit and operational boundary set in the Treasury Management Strategy 2024/25. Short term debt (to be repaid within one year) of £95 million is within the approved maximum limit of £99.5m. We noted that there is a further £4.9 million accrued interest classed as short-term debt in the annual accounts. The current borrowing position complies with the Prudential Code and treasury indicators.

84. Given the expected required levels of borrowing over the short to medium term, the Council should continue to liaise with advisors to determine the best profile of borrowing so that it remains affordable and within authorised limits.

Medium and longer-term financial plans are in place and reflect the Council's strategic plan and outcomes. The forecasts show increased levels of savings required over the medium to longer term

85. As part of the budget setting process each year, the Council continues to adopt a five-year approach to medium-term revenue planning, ten-years for the long-term financial strategy, and a ten-year timeframe for the capital plan. This ten-year planning horizon should allow the Council to plan service and strategic change appropriately and ensure the financial implications of the Council Plan are properly considered, affordable and reflected in future budgets.

86. The Council's five-year revenue plan (2025/26 - 2029/30) shows a planned spend of £2.04 billion. The Council identified pressures totalling £79.6 million over the five years, which are dominated by pay pressures of £41.1 million, service priorities and national policy changes of £27.9 million and other non-pay pressure of £10.6 million.

87. Savings targets of £34.2 million (1.7% of expected revenue spend) were identified over the same timeframe. This figure is after assumptions for increases in council tax of 10% in 2025/26 and 5% per annum thereafter. The plan identified savings targets averaging just under £7 million per year. In addition, temporary (non-recurring) savings in previous years will need to be made on a recurring basis and will be carried forward into future years until that is delivered.

88. In recognition of the high-level savings brought forward, savings required in 2025/26 were at a lower level than in future years to allow the Council to deliver the required savings and plan for future years (see paragraph [73.](#)) If brought forward savings are not delivered on a recurring basis during 2025/26, this will make achieving a financially sustainable position more challenging.

A refreshed transformation programme 2025-2030 was approved in May 2025

89. The Council introduced a refreshed transformation programme highlighting the Council's dual approach to transformation. The report highlighted the key flagship projects planned for 2025/26 which includes out of area placements and the Live Borders Joint Transformation programme. It also noted that the Council sees transformation and improving services as part of business-as-usual activities throughout the Council.

90. The 2024/25 Best Value thematic review on the Council's approach to service transformation as prescribed by the Accounts Commission was reported in June 2025 and the key messages from this work are outlined in the Best Value section below.

The Accounts Commission published reports highlighting budget and workforce challenges affecting councils

91. In May 2025, the Accounts Commission published [Local government budgets 2025/26](#). This briefing highlighted that councils do not have enough money to meet current demand with increased pay and non-pay pressures. At the same time, local communities are being asked to contribute more through increases in council tax and the introduction of charges for some services. Councils continue to make savings, but this is becoming more challenging. The briefing also noted that councils need to provide clearer budget information and work with communities to determine how services will be delivered in the future, recognising these are challenging conversations and the difficult decisions ahead for councils, including protecting the most vulnerable in the communities.

92. In August 2025, the Accounts Commission published [Delivering for the future](#). This report highlights the challenges facing councils regarding workforce and considers the 2023/24 thematic reviews on workforce. Recruitment and retention of staff continues to be a challenge, and most councils have an ageing workforce. Councils are actively considering their future workforce requirements, including the need to make reductions, so they can ensure workforces are the right size and shape, and their staff have the skills they will need for the future. In addition, the use of more digital technology is an area being used across councils to support workforce pressures including ensuring staff have the digital skills necessary for the scale of changes ahead.

93. The Council brings all relevant Accounts Commission reports to the Audit Committee, which is good practice. This can be enhanced by providing a brief covering paper for each report highlighting the key messages that officers want to draw to the attention of members.

The Council has appropriate financial control arrangements in place

94. From a review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we

did not identify any internal control weaknesses which could affect the Council's ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements.

95. From work done, there are up-to-date policies and procedures, for example, financial regulations and scheme of delegation, in place to support effective financial management. This includes financial regulations being revised and approved by Council in November 2024.

96. There is regular quarterly reporting by CGI (IT service provider) to the External Services/Providers Monitoring Group. It was identified that CGI service auditor assurance reports cover the whole business of CGI as opposed to work at the Council so the Council determined that this would not provide additional assurance on the risk environment for the Council. Certifications regarding managing information security, privacy information management and business continuity have been shared. The Council continue to liaise with CGI to support risk assessment and a timely identification of any risks.

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

97. The Council has clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI). The counter fraud policy statement and strategy were refreshed in year approved by Council in December 2024.

98. The 2024/25 NFI planning self-assessment was completed by the Integrity Group and this group will continue to monitor the completion of NFI work.

Use of Resources to Improve Outcomes

Conclusions

The Council has effective and appropriate arrangements in place for preparing and publishing statutory performance information, with performance compared to prior years and other councils remaining relatively stable.

Service performance has remained relatively stable and there have been improvements in education indicators. Challenges continue to exist in indicators relating to looked after children with targeted work being undertaken in this area including investing in staffing and infrastructure.

The Council continues to work with culture and leisure partners to support transformation and address financial challenges. The Council has provided further financial support in year and is currently undertaking consultation on service provision.

The Hawick Flood Protection Scheme and associated active travel investment projects were substantially complete in the year. The scheme is currently the largest flood protection initiative in Scotland. The Council faced some operational and contractual challenges during the project which resulted in an ongoing dispute with a key third party construction company. This was settled in July 2025 and provision for these costs are included in the accounts. The Council is undertaking a lessons learned exercise over the next 12 months and it will be important that findings from this experience are taken forward.

99. The audit work performed on the arrangements the Council has in place around its Use of Resources to Improve Outcomes found that these were effective and appropriate in relation to performance reporting, including use of benchmarking.

Statutory performance information (SPI) and service performance

100. The Accounts Commission issued a [Statutory Performance Information Direction](#) (2021) which requires the Council to report on two indicators.

Indicator 1: Improving local services and local outcomes

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

Indicator 2: Demonstrating Best Value

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

101. Auditors have a statutory duty to satisfy themselves that the Council has made proper arrangements for preparing and publishing statutory performance information in accordance with the Direction.

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

103. Our work in 2024/25, outlined below, has confirmed that the Council's performance reporting arrangements were satisfactory. The Council continues to improve its public reporting of performance information

through clearer alignment of performance information with its key strategic outcomes and by introducing new indicators to better reflect the Council's activities.

104. We assessed the arrangements the Council has in place for preparing and publishing SPI, including how it has responded to assessments. The Council covers the requirements set out in the SPI direction issued by the Accounts Commission and we concluded the arrangements in place were effective and appropriate.

The Council has appropriate performance reporting arrangements in place

105. The Accounts Commission requires auditors to report a summary of the information on service performance reported by the Council. The Council reports information on service performance on its website and through the Executive Committee. There is an [interactive public performance dashboard](#) on the Council's website where the public can review key performance indicators (KPIs) over the last five years. The use of charts and infographics in the reports and the online dashboard make these reports accessible.

106. Quarterly reporting and performance indicators: The Council has a suite of key performance indicators to monitor progress against the outcomes detailed in the Council Plan. These indicators are reported on quarterly through the Executive Committee. The reports show actual performance against target performance, performance trend (whether improving or deteriorating) and a brief commentary on performance. Milestones for key projects are summarised with narrative to draw out key points. Work has been ongoing in 2024/25 to ensure that the indicators remain relevant with changes made in year. Energy consumption indicators have been expanded, and the safer communities' team has revised indicators relating to homelessness anti-social behaviour. A further indicator relating to staff turnover has been introduced and this links directly to the new Strategic People Plan published in May 2025.

107. Annual reporting of performance information: The Council reports on annual performance measures in its Annual Performance Report 2024/25 reported to the Executive Committee June 2025 meeting. This detailed expected progress against the milestones in year and identifying which actions have not been and will be taken forward into future years.

108. It summarises the performance indicators and trends for the year. There is limited information on longer trends in the report and that could be beneficial in key areas where change can take longer than a year. It then uses the local government benchmarking framework (LGBF) to highlight the Council's own performance against these indicators and trends, followed by highlighting performance related to its family group (similar councils in Scotland) and across Scotland as a whole. LGBF information is detailed across the six Council plan outcomes, and there is evidence of some clearer linkages to Council outcomes in the Council

plan. For example, the actions relating to Fulfilling our potential in the Council plan regarding attainment tie into the LGBF numeracy, literacy and positive destinations indicators. The Council can continue to make these linkages clear in reporting.

109. In both types of report, there is some increased high-level information on actions being taken to address indicators which show a deteriorating position. There is also evidence of these being discussed in Executive Committee minutes. The Council should continue to report this, highlighting where work is being carried out to address more challenging areas of performance.

110. From review of the service performance information reported by the Council, this was found to be sufficiently detailed to provide an assessment of progress the Council is making against its strategic priorities and allow effective scrutiny of performance.

Service performance has remained relatively stable. There have been improvements in education indicators. Challenges continue to exist in indicators relating to looked after children

111. Overall, the service performance information reported by the Council demonstrates that performance compared to prior years and against other councils has remained relatively stable. The most recently published information on service performance reported highlights that of the 102 applicable LGBF indicators, 8% are being classed as excellent, 68% as positive/satisfactory and 24% as a focus for improvement (compared to prior year reporting). Progress in comparison to other councils has remained relatively stable, with 72% of indicators being similar to other in its family group, 9% being excellent and 20% as focus for consideration to understand why indicators are poorer than other councils. The following outcomes have shown improvements or continue to be a focus for improvement are highlighted:

- The net costs of waste collection per premise and the percentage of adults satisfied with refuse collections continue to be positive. The costs are the lowest in Scotland, and satisfaction highest in the latest LGBF figures.
- The percentage of primary pupils achieving CFE level in numeracy and reducing the numeracy attainment gap in primary schools are both classed as excellent by the Council. This percentage of pupils is the highest in Scotland, and the attainment gap is amongst the smallest in Scotland in the latest LGBF figures.
- The percentage of A, B, C and unclassified roads that should be considered for maintenance is deteriorating. This percentage is the highest in Scotland for A, B and unclassified roads, and one of the highest for C roads.

- Costs for looked after children in residential services continues to increase, and the percentage of children cared for in the community has fallen. Costs are consistent with other local authorities, but the percentage cared for in the community is lower than other authorities. This is an area of focus for the Council and an out of area placement project is ongoing, with increased funding to support resourcing of additional staff and improved infrastructure.

The Council continues to work with culture and leisure partners to support transformation and address financial challenges

112. Live Borders deliver culture and leisure facilities on behalf of the Council. Live Borders current service model was identified as being unsustainable and a joint transformational change programme began in 2023/24 identifying over 30 proposed operational and strategic actions over the last quarter of 2023/24 and throughout 2024/25. In June 2024, the service model moved to a single member trust model, with services relating to active schools and sports development to be delivered by the Council. Funded by the Change Fund, a third-party review of services was completed in early 2025.

113. There has been recognition by the Council and Live Borders that change to service provision is necessary for it to remain sustainable. A public survey is ongoing to seek views on service provision and community consultations have been taking place across summer 2025 to gather an evidence base to allow challenging decisions to be made.

114. Live Borders has faced financial challenges post pandemic. In 2022/23, £1.03 million financial support was provided. In 2023/24, £1.5 million was allocated, of which £1 million was drawn down. In March 2024, Live Borders requested a further £600k of financial support to allow them to be a Living Wage employer. This was approved and funding was provided permanently from 1 April 2025. A further £2.15 million support was provided in 2024/25: a £1.65 million increase in the management fee plus £0.5 million which had not been drawn down in 2023/24.

115. Whilst the consultation on transformation is ongoing, Live Borders has identified further financial challenges, and a £1 million loan was agreed by Council in August 2025. This is a 0% loan repayable over four years and will come from the Change Fund.

The Hawick Flood Protection Scheme

116. Hawick has a history of severe flooding. In September 2007 the Council approved an Implementation Strategy for the delivery of flood protection schemes in the Borders, with Hawick to be the third scheme to be delivered. Approvals processes were carried out throughout 2017 for the Hawick Flood Protection Scheme (HFPS) and advanced works began in 2018. The main development formally commenced in 2020. The scheme was officially opened in August 2025, and the project should reduce the likelihood of flooding to once every 75 years.

117. The work comprised four main projects: the actual flood defences, an active travel network of footpaths, cycle paths and foot bridges along the length of the scheme, upgrading the A7 Commercial Road and a new pumping station. The project costs in May 2020 were noted as £88.1 million revised to £92.3 million following further external funding being secured. Funding comprised of £62.9 million from the Scottish Government, £15.1 million from the Council, £8.9 million from Sustrans (increasing to £12.7 million), £0.8 million from Scottish Water, £0.5 million from Transport Scotland and £0.3 million of other external funding. The four projects were expected to be completed by Autumn 2023.

118. A project board was in place to provide direction, decision-making and was accountable for the delivery of the project. It would escalate matters as required to the Council's Management team, Executive Committee and full Council as required. There is evidence of reporting on the project made to Council through private papers at full Council, Executive Committee and members briefings. This highlighted areas of challenges with third party contractors. Public reporting on project progress was via the [Hawick Flood Protection Scheme](#) website, Council announcements and regular newsletters for residents.

119. In February 2020, at the commencement of the project, the project's Governance Structures and Financial Management Strategy were subject to independent review by Grant Thornton. A mid-programme report on key challenges in the project, prepared by officers, was provided to the Executive Committee in February 2022. The Council's internal audit completed an audit on flood protection in February 2024, but this was focused on flood risk management responsibilities and procedures, rather than specifically on the HFPS. No further independent reviews were carried out.

120. As noted in [Exhibit 2](#), we reviewed the accounting treatment of a settlement with a key third party contractor and the asset under construction. Amendments were made to both in the annual accounts. At 31 March 2025, total infrastructure works of £101 million, including the £2 million agreed capital works treated as provision, were capitalised. There is the need for approximately a further £5 million to bring the project to completion in 2025/26. The Council had budgeted for £1 million costs at the start of 2025/26 and notes this future financial pressure in the annual accounts. The Council will report on total costs in due course but have noted that the project has been delivered against the backdrop of the Covid-19 pandemic, contract disputes and challenges due to the complexity of the works including the well-publicised collapse of a building into the River Teviot.

121. We have not undertaken a full review of the project or underlying contract in 2024/25. We have focused on the accounting treatment of the project. We note that the Council has committed to carry out a lessons learned exercise on HFPS and report within 12 months. It is important to take the lessons learned relating to project management and relationships

with third parties to support other major and complex capital works, particularly given the extent of planned investment by the Council over the next ten years. We will continue to monitor progress on this review in 2025/26.

122. The Auditor General for Scotland and the Accounts Commission issued a joint report on [Flooding in communities: Moving towards flood resilience](#) in August 2025. It noted that the Scottish Government, councils and other public bodies must urgently address critical gaps in roles, responsibilities, information and data. Failing to do this risks ambitions to build communities that can better withstand and recover from flooding. Whilst there is a new National Flood Resilience Strategy, the process for allocating funding for major flood schemes is currently not fit for purpose. Existing major flood schemes across Scotland are taking longer to complete, with expected costs more than doubling to over £1 billion.

Recommendation 3

We encourage the Council to complete its lessons learned expediently so that learning from HFPS can be taken into other major capital works projects.

The Council should look to action the recommendations aimed at councils in the Flooding in communities report to support flood resilience in the Borders.

Vision, Leadership and Governance

Conclusions

The Council has a clear vision linked to its outcomes.

The Council has effective and appropriate governance arrangements for delivery of the outcomes in the Council plan.

123. The audit work performed on the arrangements the Council has in place around its Vision, Leadership and Governance found that these were effective and appropriate.

The Council has a clear vision linked to its outcomes

124. The Council has a Council Plan in place, supported by operational plans, that clearly set out its vision, strategy, and priorities and reflect the pace and depth of improvement required to realise these in a sustainable manner. The plan is refreshed annually, with this aligned to the budget

setting process. This has the longer-term vision and the priorities for the year.

125. This sets the longer-term vision and the priorities for the year aligned to the council's key outcomes.

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

126. For each outcome, there is an additional 2033 Vision which states where the Council wishes to progress over the longer-term in complex wide-ranging issues including reducing poverty and low economic productivity. The plan for 2024/25 was approved in February 2024 and there is clear alignment between milestones in this report and performance reporting in year. The plan for 2025/26 follows the same format and was approved in February 2025. A new Strategic People Plan was approved in May 2025

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

Governance arrangements are effective and appropriate for delivery of the outcomes in the Council plan

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

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

Changes were made to engaging with communities, with community conversations being trialled over the next 18 months

130. The Council decided to disband area partnerships in early 2025, after reviews determined that they were not delivering on their aims. The Council has committed, aligned to its Community Engagement strategy to better understanding and working with communities.

131. Community conversations will be trialled for a period of 18 months. Community conversations with young people will continue and will be supported by the Youth Engagement Team.

132. The Council aims that these conversations will cover single focused topics affecting the community. Topics for 2025/26 include the Borders Sporting and Cultural Review, the Council budget 2026/27 and transport.

133. As part of this change, the Council should look to ensure that harder to reach groups are not disadvantaged by this change and evaluate the success of the conversations across the trial period.

ICT Governance arrangements

134. CGI continue to report quarterly on contract performance to the External Services/Providers Monitoring Group. Reports provide detail on transformation progress, key projects and on service performance. CGI have supported members briefings in 2025 on cyber security.

135. As noted in our reporting last year, the Council, working with CGI have not yet undertaken a full disaster recovery test due to factors including available resources and agreement of a convenient time within the business for services to be taken offline. Work continues in carrying out scheduled elements of disaster recovery testing. A full disaster recovery session is still to be scheduled and should be progressed to support business continuity.

Best Value audit

Conclusions

The Council has effective and appropriate arrangements in place for securing Best Value evidenced through the Controller of Audit report to the Accounts Commission in November 2024. There is good progress against the findings in this report.

The Management Report on themes prescribed by the Accounts Commission reported the Council has a good track record of delivering permanent savings through its previous transformation programme Fit for 2024. It launched its new Transformation programme 2025-2030 in May 2025 and has committed to new reporting arrangements on transformation progress in 2025/26.

Audit approach to Best Value

136. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors are required to take a risk-based approach to assessing and reporting on whether the Council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

137. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the Council. The thematic review for 2024/25 is about service transformation and involves considering how the Council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review are reported in a separate Management Report and summarised in this chapter.

Conclusions on Best Value

The Council's arrangements and performance in meeting Best Value and community planning duties

138. The Council was part of the second year of the programme for Controller of Audit reports to the Accounts Commission on the Council's performance in meeting its Best Value duties. The Controller of Audit

report was published in November 2024 and is available on the Audit Scotland website, with a summary of the conclusions and judgements made in the report outlined below.

- The Council's commitment to continuous improvement is clear. Despite Covid, work has continued to respond to all recommendations made in previous Best Value reports. It has consistently laid out a clear vision and strategic priorities that respond to its geographic and demographic challenges.
- The Commission is impressed by the Council's strong approach to financial management and recognises its financial strategy risk register as an area of good practice that should be shared. There is a strong track record of delivering planned savings, a significant proportion of which are recurring. Going forward, recognising the financial challenges faced, the focus should be on making savings on a recurring basis.
- Following successful delivery of 'Fit for 2024', the Council has set out a refreshed transformation programme, SBC Way, supported by a 'self-replenishing' change fund approach. The Commission will watch with interest as to whether the change fund approach delivers the required payback and recurring savings at the pace required. The Commission would urge the council to strengthen its reporting on its transformation programme milestones and expected benefits, as well as ensuring the community is engaged with its transformation agenda.
- The Council demonstrates a willingness to work with other councils and organisations, both within and out with the Borders area. The Commission encourages it to continue with this approach to support not only the achievement of the outcomes set out in its Council Plan, but the realisation of the £18.1 million savings required by 2028/29.
- In relation to focusing on performance and improvement, the building blocks are in place, including timely and accessible public reporting. The Council should strengthen the links between improvement activities and performance evidence, and the links between the Local Government Benchmarking Framework and its own priorities and performance indicators.
- Difficulties in relation to community engagement have been recognised. The Commission will take an interest in how the Council is assessing the impact of its new Community Engagement Strategy, including evidence of effective leadership and how the strategy's principles are being embedded across the organisation.
- In response to workforce challenges and risks, the Council has undertaken a range of targeted, service-specific initiatives –

including the offer of accommodation for those recruited into adult social care – and is able to now see positive impacts. Again, the Commission would encourage the Council to share this good practice. It has also focused on assessing the impacts of post-Covid ‘agile working’ on productivity, which we commend. The Council should now focus on ensuring closer links between its workforce, financial and council plans, and develop performance metrics to continue to measure the impact of its actions.

139. The Council has made good progress in relation to the findings included in the report. The Council has adopted a new approach for 2025/26 to support delivery of recurring savings, a new transformation programme has been developed, and new reporting is in place. The new Communication Engagement process via community conversations is being trialled and a new strategic people plan delivered with metrics included for reporting on its actions. The recommendations from this work are detailed in [Appendix 1](#).

Best value thematic review on the Council’s approach to service transformation as prescribed by the Accounts Commission

140. As previously outlined, the Accounts Commission reports nationally on thematic aspects of the Council’s approaches to, and performance in, meeting its Best Value duties, with the thematic review for 2024/25 on the subject of service transformation. Conclusions and judgements on the Council’s approach to service transformation are outlined in a separate Management Report which is available on the Audit Scotland website. A summary of the conclusions and judgments made in the report is outlined below.

- The Council published its plan for its 2025-30 transformation programme in May 2025, broadly consistent with timings in the 2024 Council Plan, and one year after the revised operating model to support delivery of the plan was established. This has provided clarity of its key transformation projects.
- The Council has a good track record of delivering permanent savings through its previous transformation programme, Fit for 2024. It is aiming to deliver £34 million of permanent savings through its current transformation programme and is working to identify opportunities to achieve this. It has a £20 million self-replenishing Change Fund and a well-resourced transformation team in place to support its transformation programme.
- The Council has effective governance arrangements in place at the operational delivery level through project boards. Reporting to the Council Management Team could be strengthened to give it greater oversight of the whole transformation programme. The Council is working to improve the visibility of its transformation programme

with elected members through its reporting and its Transformation Working Group.

- The Council is working well with partners to deliver transformation in adult social care and sport and culture services. There are also examples of jointly funded transformation activity. The Council has engaged well with communities and has evidenced changes to plans as a result of consultation. It has an established integrated impact assessment process in place.
- As previously reported in the annual audit, the Council can enhance public performance reporting on its transformational activity by sharing progress on milestones and achievements. This should be further improved to report on the impact of transformational activity on local outcomes. The Council has committed to new reporting arrangements from 2025/26.

141. The recommendations from this work are detailed in the action plan in [Appendix 1](#), along with the Council's agreed actions.

Equalities and fairness

142. We noted in our Annual Audit Plan 2024/25 that auditors are required to carry out a review of the 'fairness and equality' characteristic at least once during the audit appointment. We planned to complete this work in 2024/25. Management advised that the Council's revised work on its Mainstreaming Report & Equalities Outcomes will be reported in late 2025, therefore we will now complete this work in 2025/26.

Progress against previous Best Value findings and recommendations

143. Best Value findings and recommendations have been made in previous years' Annual Audit Reports, Management Reports on themes prescribed by the Accounts Commission, and Controller of Audit Reports on the Council's performance in meeting its Best Value duties.

144. Details of previous recommendations and progress the Council is making against these can be seen in [Appendix 1](#). Overall, the Council is making good progress in implementing the previous recommendations made, with all the Best Value recommendations made being implemented.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Capacity to support the audit There have been capacity issues before and during the start of the audit due to unplanned absences. This resulted in errors in the annual accounts, and supporting working papers, which impacted on the time and resources required to perform the audit. Risk – that statutory deadlines are not met.	The full suite of agreed working papers is made available at the start of the audit process, with a quality control check process completed to ensure these are consistent with the annual accounts.	Accepted Officers are fully committed to working with Audit Scotland colleagues collaboratively to provide the information required within agreed timescales. Responsible officer Chief Officer Finance & Procurement Agreed date 31 March 2026
2. Assets not subject to formal valuation There have been errors in processes for assets not subject to formal revaluation. There should be a clearer trail of judgments made, and desktop valuations should have been applied. Risk – that assets are not held at the correct value and the balance sheet is misstated.	A clearer trail of key judgements as part of the asset not subject to formal valuation is required. Processes for evaluating desktop valuations should be strengthened including taking account of the revised guidance due from CIPFA for 2025/26 relating to valuations, which will be available for next year's valuation work.	Accepted Council officers will work with the appointed valuer as outlined to further improve processes. Responsible officer Chief Officer – Estates, Environment and Infrastructure Agreed date 31 March 2026
3. Hawick Flood Protection Scheme There has been delays and challenges in delivering a major infrastructure work, including increased costs.	We encourage the Council to compete its lessons learned expediently so that learning can be taken into other major capital works projects. The Council should look to action the recommendations aimed at councils in the	Accepted The Council is committed to undertaking a lessons learned exercise in a timely manner. Responsible officer

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
Risk – without completing the lessons learned review expediently, other ongoing large-scale projects may not benefit from these insights.	Flooding in communities report to support flood resilience in the Borders.	Director – Infrastructure & Environment Agreed date 31 March 2026
Best Value Transformation 1. Transformation Savings The Council plans to deliver £34 million in permanent savings through transformation projects between 2025-30. The Council has indicated that it plans to deliver £29.4 million savings between 2026/27 and 2029/30 through the 90 per cent financial sustainability cost reductions in its 2025/26 Financial Plan. Risk – The Council may not be able to deliver sustainable services if the required savings are not achieved.	The Council should continue to closely monitor and formally report savings across the council, including a direct link to the transformation programme to ensure that the plans deliver the required recurring savings, in line with the Council's Financial Strategy.	The Council will further enhance the current financial monitoring reports presented to Executive Committee on a quarterly basis by specifically highlighting progress in delivery of key transformation projects to allow a direct link to the transformation plan. Responsible officer Director of Finance Actioned by August 2025 (first quarterly reporting to Executive Committee for 2025/26)
Best Value Transformation 2. Oversight of Transformation Plan The Council Management Team receives regular updates on progress with specific transformation projects. These updates are primarily in the form of presentations which are noted in meeting minutes. Given the style of updates, it is unclear whether they include an overarching view across transformation projects showing progress against milestones and outcomes.	In redefining its Transformation Plan, the Council should review its reporting arrangements to its Council Management Team to ensure project updates are sufficiently detailed to enable effective oversight of progress against the overarching plan of flagship and other projects.	The Council will enhance the regular transformation progress reports to the Council Management Team. The reports will include clear information on expected benefits and milestones for transformation delivery and highlight any potential delays in delivery. Responsible officer Director People Performance and Change Actioned by July 2025

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
Risk – The Corporate Management Team may not be able to make informed decisions without a complete overview of the status of the projects.		
Best Value Transformation 3. Reporting to elected members Due to the timing of our reporting, there has been no reporting to elected members on overall progress with the 2025-30 transformation programme through committee reporting. There is evidence of reporting on some individual transformation projects to the Council meetings throughout 2024/25. Risk – That elected members do not have appropriate oversight of the overall transformation programme.	As part of its improved reporting on transformation to elected members, the Council should include information on progress with projects in relation to timings, costs and estimated benefits and where there are risks to timescales and budgets.	The Council will implement quarterly transformation progress reports to the Executive Committees. The reports will include clear information on expected benefits and milestones for transformation delivery. Responsible officer Director People Performance and Change Actioned by September 2025

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
1. Land and building assets valuations The economic climate means that the carrying value of properties valued on depreciated replacement cost properties (DRC) continues to increase significantly year on year. A desktop revaluation exercise was required to be undertaken by the Council in respect of land and building	The Council should carry out an annual exercise to review those land and building assets not subject to formal valuation for any indication of material movements. Finance, estates teams and valuation experts should work together to ensure this review is completed on a timely basis and is sufficiently detailed to provide assurance to management that the carrying value of assets represents fair	Implemented The annual exercise was completed and included in the unaudited annual accounts. There are areas for further improvement detailed in recommendation 2 for 2024/25.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
assets not subject to formal valuation which resulted in a material increase in the carrying value of those assets of £37.7 million. In addition, to support the formal valuation process, movements in asset values resulting should be reviewed to ensure all significant changes are in line with expectations and adequately explained. Risk – that assets not subject to formal valuation will have materially changed in value and the balance sheet is misstated.	value and any material movements are included in the unaudited financial statements. All judgements made throughout this process should be clearly documented. A review should be completed by finance and the valuers of the changes in the carrying values of assets resulting from formal valuation exercises to ensure that these are reasonable, in line with expectations and are adequately explained. Accepted Agreed to undertake annual exercise as recommended. Responsible officer Chief Officer Finance & Procurement and Chief Officer – Estates, Environment & Infrastructure Agreed date 31st March 2025	
2. Significant trading operation – internal charges The maximum profit element which has been incorrectly capitalised in 2023/24 is £1.17 million. We have extrapolated this over the period from 2016/17, when the status of SBc Contracts as a STO was last formally reviewed. This would give a maximum error of £6.60 million.	As part of year end processes an analysis of the total profit for internal works completed by SBc Contracts should be carried out. Any non-directly attributable costs and any surplus should not be capitalised. This would ensure infrastructure assets from SBc Contracts internal works are capitalised in line with IAS 16. Accepted Agreed to ensure that SBc Contracts' internal works are capitalised in line with IAS 16.	Implemented Work has been carried out in year to ensure that non-directly attributable costs have not been capitalised.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
The impact of this may require SBc Contracts to review its pricing structure. Risk – that if this is not addressed infrastructure assets will be materially misstated	Responsible officer Chief Officer Finance & Procurement Agreed date 31st March 2025	
3. Infrastructure assets – Statutory override The statutory override relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements. Risk - A permanent solution has not yet been agreed and CIPFA believe that this will continue be an area of enhanced scrutiny for local government auditors.	The Council should proactively work with CIPFA LASAAC and the wider local government sector to arrive at appropriate solution for the implementation of accounting for infrastructure assets. Accepted Agreed, the Council's finance team will engage with appropriate colleagues with the aim of ensuring the SBC accounting treatment is in line with national approach. Responsible officer Chief Officer Finance & Procurement Agreed date 31st March 2025	Closed The statutory override relating to the valuation of infrastructure assets has been extended. The Council remains engaged with CIPFA LASAAC regarding this.
4. CGI service auditor assurance reports Service auditor assurance reports provide assurance over the control environment for outsourced services. Risk – without review of these documents there may be unidentified control environment risks.	The Council should seek a formal service auditor assurance report for CGI to provide the council with additional assurance over the control environment and support timely identification of any risks. Accepted Agree to request appropriate documentation from CGI. Responsible officer Director of Finance Agreed date	Closed CGI service auditor assurance reports cover the whole business of CGI as opposed to work at the Council so the Council has determined that this report would not provide additional assurance. Certifications regarding managing information security, privacy information management and business continuity have been shared.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
	31 st March 2025	The Council continue to liaise with CGI to support timely identification of risks.
5. Enhancing reporting of transformation Transformation work carried out by the Council is key to delivering services in a financially sustainable way going forward. Risk – without periodic public reporting on transformation progress the community may feel disengaged from Council's work.	Reporting of transformation could be enhanced so that progress against defined measurable milestones and achievements from the SBC workstreams are more clearly reported to the community. Accepted Progress on milestones will be included on the Council's website. Responsible officer Director People Performance and Change Agreed date 31st March 2025	In progress The new Transformation Programme 2025-2030 was launched. Going forward, a specific project will be highlighted each month through social media and a news release. The transformation section on the Council website is currently being developed. Accepted Progress on transformation milestones will be included in the Council's Performance reports to Executive Committee from Quarter 2 2025. The detail will be available on the performance portal on the Council website. Responsible officer Director People Performance and Change Agreed date December 2025
6. Enhancing reporting of areas for improvement in performance reporting The quarterly and annual performance reports identify areas where performance needs improved. There is discussion in Council meetings and internal reporting/briefing to members on how this will be addressed, however reporting to the public could be enhanced.	Performance reporting can be enhanced by giving more detail and clearer linkages to actions being taken to address areas for improvement identified in the quarterly and annual performance reports. Accepted The Executive meeting 10th September 2024 agreed to bringing areas for focus for	Implemented From Q1 of 2025/26, the performance report to the Executive Committee includes actions for all indicators classed as a focus for improvement.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
Risk – without periodic public reporting on remedial actions for areas for improvement identified in the performance reporting, the community may be unaware of improvements.	improvement to all member briefing sessions. Further narrative on areas of focus will be enhanced in the performance dashboard. Responsible officer Director People Performance and Change Agreed date 31st March 2025	
b/f 2022/23 AAR 4. Assets on Common Good Land A judicial review concluded that all Council assets built on Common Good land cannot be considered as owned separately from the land they stand on and are therefore Common Good assets. The Council has a number of operational assets which stand on Common Good land. Risk – that the Council does not have a formal agreement in place.	The current accounting treatment reflects the substance of the transaction but that the Council should look to establish a formal agreement between the Council and common good funds for the use of the assets. Agreed Action Officers are committed to progressing this work during the remainder of 2023/24. Responsible officer: Director of Finance & Procurement, Suzy Douglas Director of Corporate Governance, Nuala McKinlay Agreed date: 31 March 2024 Audit update 2023/24 Post year end, lease agreements have been put in place for the 3 largest assets and arrangements have been formalised. It is expected these will become right of use assets in the Council's balance sheet as part of the transition to IFRS 16 in 2024/25. We would expect formal agreements to be completed	Implemented These have been reclassified as donated assets in line with IFRS 16.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
	for the other assets in 2024/25.	
	Accepted	
	Following the implementation of IFRS 16, the accounting treatment for these transactions will be fully reviewed.	
	Responsible officer	
	Chief Officer Finance & Procurement	
	Agreed date	
	31 st March 2025	

Progress against previous Best Value and Controller of Audit findings and recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update on progress
1. BV 2024 Enhancing the Strategic People plan The council should ensure that the Strategic People Plan is aligned with the council's Operating Model, Council and Financial plans to take account of the changing strategic and operational landscape, performance and evolving priorities. This should include identifying the council's future workforce requirements over the medium to longer term and measurable workforce outcomes that support the council's wider priorities. Risk – There is a risk that the Council does not have a consolidated strategic people plan in place to support a	The council should ensure that any future review and refresh of the Strategic People Plan provides an assessment of the council's future workforce requirements and profile in the medium to long term. In addition, it should identify key outcomes to be delivered under the plan that reflect Specific, Measurable, Attainable, Relevant, Timely (SMART) objectives. Accepted Medium- and long-term forecasting information will be included in the annual Strategic People Plan. The plan will contain SMART objectives that reflect the Council's requirements.	Implemented SMART objectives have been included in the Strategic People Plan. Medium- and long-term forecasting overview information has been included in the Strategic People Plan.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update on progress
systematic and strategic approach to workforce planning	Responsible officer Director People, Performance and Change Implementation date March 2025	
2. BV 2024 Reporting and monitoring to elected members The council has established deliverables as part of its workforce innovation and supporting the delivery set clear timescales and deliverables for the workstreams delivering aspects of the Operating Model review, including the Strategic People Plan. However, there are currently no formal arrangements for how these will be reported to elected members. Risk – There is a risk that members do not have the visibility to monitor and scrutinise deliver of workstreams underpinning the Operating Model review.	The council should ensure there are clear arrangements for the reporting and monitoring of key deliverables to elected members. Accepted The Members Transformation Group has had oversight of the Operating Model workstreams to date, and this will continue with the Budget Working Group. The Strategic People Plan will be presented at Council annually. Responsible officer Director People, Performance and Change Implementation date December 2024	Implemented The Strategic People plan was presented to Council in May 2025.
3. BV 2024 Monitoring the impact of workforce planning The council monitors progress with its workforce initiatives, and each service has its own performance indicators, and while it has recently refreshed its Strategic People Plan, it is not clear how the council intends to align these to measure the impact of workforce planning Risk - There is a risk that the council is unable to assess the impact and efficacy of	The council's Strategic People Plan should set out how it intends to assess its performance and what metrics it will use (e.g. sickness absence levels, turnover rates, staffing establishment composition) to measure the impact of its workforce planning and initiatives. Accepted Workforce metrics will be included in the Strategic People Plan and reported. Some additional metrics will	Implemented The Strategic People Plan details outcomes and the workforce metrics which will be used to measure success.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update on progress
people strategy and underlying workforce plans.	be included in the quarterly Performance Report that is considered by the Executive Committee. Responsible officer Director People, Performance and Change Implementation date March 2025	
1. CoA 2024 Savings The council should continue to ensure that future savings are made on a recurring basis to support financial sustainability.	The council should continue to ensure that future savings are made on a recurring basis to support financial sustainability.	Implemented The Council noted that recurring savings had fallen in 2024/25 and has taken action to ensure that corporate wide savings are allocated to directorates at the start of the year as part of its spend plans. We will continue to monitor this as part of our annual audit process.
2. CoA 2024 Transformation Reporting of transformation could be enhanced so that progress against defined measurable milestones and achievements from the SBC Way workstreams are more clearly reported to the community.	Reporting of transformation could be enhanced so that progress against defined measurable milestones and achievements from the SBC Way workstreams are more clearly reported to the community.	Implemented The new Transformation Programme 2025-2030 was launched. Going forward, a specific project will be highlighted each month through social media and a news release.
3. CoA 2024 Performance reporting Performance reporting can be enhanced by giving more detail and clearer linkages to actions being taken to address areas for improvement identified in the quarterly and annual performance reports.	Performance reporting can be enhanced by giving more detail and clearer linkages to actions being taken to address areas for improvement identified in the quarterly and annual performance reports.	Implemented From Q1 of 2025/26, the performance report to the Executive Committee includes actions for all indicators classed as a focus for improvement.

Appendix 2

Summary of corrected misstatements

Details	Financial statements lines impacted	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
		Dr	Cr	Dr	Cr
Audit adjustments to financial statements		£000	£000	£000	£000
1. Pension Asset ceiling (see Exhibit 2)					
	Actuarial losses on pension assets	195,858			
	Pension Asset			(195,858)	
2. Hawick Flood Protection Scheme (see Exhibit 2)					
	Infrastructure asset			100,197	
	Provision				(1,952)
	Asset under construction				(98,245)
3. Infrastructure and Environment - paragraph 24 .					
	Expenditure		(8,899)		
	Income	8,899			
	Expenditure	3,539			
	Income		(3,539)		
4. IFRS 16 and service concession adjustment - paragraph 25 .					
	Expenditure		(1,103)		
	Right of use assets			1,103	

Details	Financial statements lines impacted	Comprehensive Income and Expenditure Statement (CIES)	Balance Sheet
	Expenditure	(3,805)	
	Creditors		3,805
	Expenditure	5,462	
	LT Liabilities		(5,462)
5. Scottish Water debtor/creditor relating to agency transaction - paragraph 27.			
	Debtors		(7,604)
	Bad debt provision		2,940
	Creditors		4,664
Audit adjustments in disclosures			
1. Capital commitments were understated by £2.0 million relating to the new Peebles High School.			

Appendix 3

Summary of uncorrected misstatements

Details	Financial statements lines impacted	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
		Dr	Cr	Dr	Cr
Uncorrected misstatements		£000	£000	£000	£000
1. Property, plant and equipment – 3G pitch - paragraph 31.					
	Land and buildings				(1,125)
	Loss on disposal of asset	1,125			
2. IFRS 16 – adjustment to in year charges - paragraph 32.					
	Other long-term liabilities			855	
	Interest payable		(855)		
3. Group audit - Live Borders pension asset ceiling - paragraph 33.					
	Pension asset				(4,607)
	Actuarial losses on pension assets	4,607			

Appendix 4

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

Scottish Borders Council

2024/25 Annual Audit Report



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot