

Public Document Pack



AUDIT AND SCRUTINY COMMITTEE WEDNESDAY, 28TH JUNE, 2017

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on WEDNESDAY, 28 JUNE 2017 at 10.15 am.

As previously agreed, there will be a meeting of Members of the Committee at 9.30 a.m. prior to the main meeting.

J. J. WILKINSON,
Clerk to the Council,
21 June 2017

| BUSINESS | | |
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| 1. | Apologies for Absence. | |
| 2. | Order of Business. | |
| 3. | Declarations of Interest. | |
| AUDIT BUSINESS | | |
| 4. | Minute. (Pages 1 - 8) Minute of Meeting of the Audit and Risk Committee held on 28 March 2017 to be noted and signed by the Chairman. (Copy attached.) | 5 mins |
| 5. | Scottish Borders Council Local Scrutiny Plan 2017/18. (Pages 9 - 34) Consider the local scrutiny plan by Audit Scotland which sets out the planned scrutiny activity in Scottish Borders Council during 2017/18. The plan is based on a shared risk assessment undertaken by a local area network, comprising representatives of all of the main scrutiny bodies who engage with the Council. The National Scrutiny Plan for 2017/18 and Map also published in May 2017 provide the national context of planned scrutiny. (Copies attached) | 20 mins |
| 6. | External Audit Interim Management Report 2016/17. (Pages 35 - 42) Consider report by Audit Scotland on interim findings from their review of Key Systems of Internal Control in connection with their audit for the year ended 31 March 2017 and associated Management Action Plan. (Copy attached.) | 15 mins |
| 7. | Financial Reporting & Scrutiny: Why the Accounts Matter. (Pages 43 - 48) | 10 mins |

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| | Consider the report by Audit Scotland prepared for Local Government and published in February 2016, including appended Questions for elected members to consider as part of the accounts scrutiny and approval process. (Copy attached.) | |
| 8. | <p>Scottish Borders Council Draft Reports and Accounts 2016/17.</p> <p>Consider various draft annual reports and accounts by Chief Financial Officer prior to their submission to the External Auditors:</p> <p>(a) Scottish Borders Council; (Pages 49 - 160)</p> <p>(b) Scottish Borders Council Common Good Funds; (Pages 161 - 182)</p> <p>(c) SBC Charitable Trusts: (Pages 183 - 290)</p> <p>(i) SBC Welfare Trust;</p> <p>(ii) SBC Education Trust;</p> <p>(iii) SBC Community Enhancement Trust;</p> <p>(iv) Thomas Howden Wildlife Trust;</p> <p>(v) Ormiston Institution;</p> <p>(vi) SBC Charity Funds;</p> <p>(d) Bridge Homes LLP; (Pages 291 - 308)</p> <p>(e) SBC Supports LLP; (Pages 309 - 326)</p> <p>(f) SB Cares LLP; (Pages 327 - 348)</p> | 30 mins |
| 9. | <p>Pension Fund Annual Report and Accounts 2016/17. (Pages 349 - 434)</p> <p>Consider draft annual report and accounts of the Scottish Borders Council Pension Fund by Chief Financial Officer prior to their submission to the External Auditors. (Copy attached.)</p> | 10 mins |
| 10. | <p>Scottish Borders Council's Local Code of Corporate Governance. (Pages 435 - 456)</p> <p>Consider a report by Chief Executive on the revised Local Code of Corporate Governance to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the new CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) and the supporting guidance notes for Scottish authorities. (Copy attached.)</p> | 15 mins |
| 11. | <p>Internal Audit Work to June 2017. (Pages 457 - 470)</p> <p>Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and the work of the Scottish Local Authorities Chief Internal Auditors Group. (Copy attached.)</p> | 15 mins |
| 12. | Any Other Audit Items Previously Circulated. | |
| 13. | Any Other Audit Items which the Chairman Decides are Urgent. | |

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| | SCRUTINY BUSINESS | |
| 14. | Scrutiny Reviews. (Pages 471 - 476) Discussion on process. (Copy attached.) | 15 mins |
| 15. | Proposed Dates of Future Meetings. (Pages 477 - 478) Consider proposed dates of future meetings. (Copy attached.) | 5 mins |
| 16. | Any Other Scrutiny Items Previously Circulated. | |
| 17. | Any Other Scrutiny Items which the Chairman Decides are Urgent. | |

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors S. Bell (Chairman), H. Anderson, K. Chapman, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, E. Small, R. Tatler and E. Thornton-Nicol. Mr M Middlemiss.

Please direct any enquiries to Pauline Bolson. Tel: 01835 826503
Email: PBolson@scotborders.gov.uk

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**SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE**

MINUTES of Meeting of the AUDIT AND RISK held in the Council Chamber, Council Headquarters, Council Headquarters, Newtown St Boswells on Tuesday 28 March 2017 at 9.00am.

Present:- Councillors M. Ballantyne (Chair), J. Campbell, I. Gillespie, A. J. Nicol, S. Scott, B. White. Mr M. Middlemiss (from Item 7).
In Attendance:- Chief Executive (for Items 6 and 7), Chief Financial Officer (from Item 6), Chief Officer Audit and Risk, Democratic Services Officer (P Bolson); Ms G Woolman – Audit Scotland and Mr G Samson – Audit Scotland.

1. **WELCOME**

The Chairman welcomed those present to the meeting.

2. **MINUTE**

There had been circulated copies of the Minute of 16 January 2017. It was noted that the Minute be amended to reflect that only Ms Woolman had represented Audit Scotland at the meeting on 16 January 2017.

DECISION

APPROVED for signature by the Chairman subject to the above amendment.

3. **RISK MANAGEMENT ANNUAL REPORT 2016/17**

3.1 With reference to paragraph 3 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk providing an overview of Scottish Borders Council's responsibilities in respect of risk management and the progress made to deliver the Council's Risk Management Strategy approved by Council in February 2016, including an update on improvement actions to refine the arrangements to managing risk at the Council. The report emphasised the importance of effective risk management in terms of Corporate Governance and in turn, that compliance with the principles of sound Corporate Governance required that the Council adopted a coherent approach to the management of risks. The finding of the Risk Management review undertaken during 2014 were presented to Audit and Risk Committee in January 2015 along with recommended improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness. The status of recommended improvement actions for 2015/16 was then presented to the Committee in June 2016 and the report being considered today demonstrated the Council's continued commitment to refine its approach to Risk Management and to embed the key aspects into the management practices of the Council.

3.2 Ms Stacey advised that significant progress had been made in a number of areas such as the uptake of training by senior managers and the development of Risk Registers across the Council. Further work was still required to ensure the consistent application of arrangements for applying the Corporate Risk Management Policy across all Council services, including the development of Risk Registers and attendance of all Senior Managers at Risk Management training. The focus for 2017/18 was to identify what further work would be required to confirm systematic and effective Risk Management within the Council, including partnership arrangements with eg Health and Social Care Integrated Joint Board, ALEOs such as SB Cares and transformation and change programmes such as the Digital Transformation Programme. Discussion followed and Members raised a number of questions which were answered by officers. Ms Stacey confirmed that Covalent was still used as a management tool and as such, was used to

produce performance management reports. Members were advised that Internal Audit were involved in ensuring that appropriate governance arrangements were in place within departments when there were changes to Senior Management personal. In relation to contract arrangements and risk assurance for ALEOs, Ms Stacey confirmed that Internal Audit would carry out further work during 2017/18 and it was emphasised that all ALEOs must be included in the Financial Report by Audit Scotland.

DECISION

(a) **ACKNOWLEDGED satisfaction with the progress of the risk management improvement actions to refine the risk management arrangements at the council to ensure their ongoing effectiveness; and**

(b) **NOTED that Internal Audit would undertake contract arrangement and risk assurance work in respect of ALEOs during 2017/18.**

4. COUNTER FRAUD ANNUAL REPORT 2016/17

4.1 With reference to paragraph 4 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk. The report provided an update of the Council's responsibilities in respect of fraud prevention, detection and investigation activity and the progress made to deliver the Council's Counter Fraud Strategy 2015 through implementation of recommended improvement actions. The report explained that during 2015 the Council refreshed its approach to tackling fraud with a refocus on prevention and detection using fraud risk assessment at its core. There was in place a 3-year counter fraud strategy and associated improvement plan to embed anti-fraud culture across the Council, taking account of reducing resources. The status of recommended improvement actions was reported to the Committee in June 2016. Further progress had been made during 2016/17 as was evidenced by the outcomes of the self-assessment included in the report. Assurances in respect of the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud were also demonstrated in the Annual Fraud report. In February 2016, the Council was considered to be compliant with the CIPFA Code of Practice on "Managing the Risk of Fraud and Corruption". Following this report, the Corporate Fraud Working Group (CFWG) agreed to use the Counter Fraud Maturity Model which had been endorsed by both the Scottish Government and CIPFA as a self-assessment tool to guide development. The Council's current position on the Maturity Model was detailed at Appendix 1 to the report. Ms Stacey emphasised that work in respect of assurance was ongoing and would continue during and following the implementation of Business World and ERP.

4.2 In response to Members' questions, Ms Stacey advised that deliberately fraudulent acts were followed up and further action taken as appropriate. She also confirmed that there were safeguards in place within procurement and that these assurances were robust and effective within the Councils' arrangements for the prevention, detection and investigation of fraud.

DECISION

NOTED the report.

5. INTERNAL AUDIT WORK 2016/17 TO MARCH 2017

5.1 With reference to paragraph 7 of the Minute of 16 January 2017, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit, the recommended audit actions agreed by management to improve internal controls and governance arrangements and internal audit work currently in progress. The work carried out by Internal Audit during the period 4 January to 20 March 2017 was detailed in the report and it was noted that during the current period, a total of six final internal audit reports had been issued, namely: Capital Investment; Performance Management (Corporate Priorities); Workforce Planning; Adult Social Care Services; Information Governance; and ICT Contract Management. Seven

recommendations relating to three reports had been made and were accepted by management. An executive summary of the final internal audit reports issued, including audit objectives, findings, good practice, recommendations and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was included in the Appendix to the report.

- 5.2 Within Asset Management Capital Investment, it was noted that the Accounts Commission "Major capital investment in Councils" follow-up report had provided positive feedback in relation to the improvement made by Councils in managing their capital investment programmes and projects whilst indicating that there remained a need to increase the pace of implementing improvement actions and complying with the Good Practice Guide. Ms Stacey advised that Internal Audit would carry out a follow-up review during 2017/18 to report on the progress of recommended improvement actions. In relation to Corporate Governance Performance Management, Internal Audit had also carried out a review to evaluate and assess the validation processes in place for data used to develop Performance Indicators. The Workforce Planning and Development assurance audit had demonstrated a range of good practice and the report explained the reasons for delays in completion of the first phase of Service People Plans. Ms Stacey confirmed that she would be involved in Risk Management in adult social care services as part of her role within the Health and Social Care Integration Joint Board. The report also identified the improvements made and the work still to be undertaken within ICT Governance. It had been too early in the development of the ICT service/contract to carry out a full testing of the controls and performance management data therefore the review had taken the form of a Position Statement. It was noted that new legislation relating to Data Security was expected in 2018 and that this would be considered within any future review as appropriate.
- 5.2 The Chief Officer Audit and Risk summarised other assurance and consultancy work that Internal Audit had been involved in during the reporting period. This included:- involvement with testing that appropriate internal controls were in place within the Business World ERP system for implementation in April 2017; and carrying out a "peer review" External Quality Assessment of Fife Council against the Public Sector Internal Audit Standards.
- 5.3 In response to questions from Members, officers confirmed the timescales for implementation of recommendations under each priority category, namely Priority 1 – immediate action; Priority 2 – within three months; Priority 3 – within three and six months. It was noted that all Internal Audit Review reports were available for public scrutiny however, these were very rarely accessed. Discussion followed in relation to ERVS and how Workforce Planning was integral for the effective delivery of Service Planning.

DECISION

(a) NOTED:-

- (i) the final assurance reports issued in the period from 4 January to 20 March 2017 to deliver the approved Internal Audit Annual Plan 2016/17 in full; and**
 - (ii) the Internal Audit consultancy and other work undertaken in the period.**
- (b) ACKNOWLEDGED the assurance provided on internal controls and governance arrangements in place for the areas covered by Internal Audit work.**
- (c) AGREED that all outstanding items from previous Minutes be summarised in a report to be presented to the new Audit and Risk Committee following the Local Government election in May 2017.**

ADJOURNMENT

The meeting was adjourned at 10.15am and reconvened at 10.25am.

6. INTERNAL AUDIT ANNUAL REPORT 2016/17

- 6.1 With reference to paragraph 6 of the Minute of 9 May 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk presenting the Committee with the Internal Audit Annual Report for the year to 31 March 2017, which included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy and effectiveness of the Council's overall control environment. In support of the overall governance arrangements of the Council, the Local Code of Corporate Governance and the Public Sector Internal Audit Standards required the Chief Officer Audit and Risk to provide an annual internal audit opinion and report to the Chief Executive on the adequacy and effectiveness of the Council's internal control and governance arrangements to support the preparation of the Annual Governance Statement. The Remit of the Audit and Risk Committee indicated that it should ensure an adequate framework of internal control, risk management and governance throughout the Council. The Chief Officer Audit and Risk's opinion, based on internal audit reviews, risk assessments and knowledge, was that the systems of internal financial control and internal control and governance arrangements were operating satisfactorily, with some improvements being identified. The Chief Officer Audit and Risk's Annual Report for 2016/17 was detailed at Appendix 1 to the report.
- 6.2 Following discussion of the Annual Report, Members requested clarification on a number of items. In relation to the analysis of the planned and actual days of audit delivery by theme during 2016/17, Members noted that there had been a reduction in planned days by 24 and Ms Stacey advised that this had been due to changes in governance arrangements. Members were also advised that following a slight delay in relation to ICT disaster recovery arrangements, completion of this work was anticipated within amended timescales.

DECISION

- (a) **NOTED the Internal Audit Annual Report for 2016/17; and**
- (b) **AGREED that the Internal Audit Annual Report for 2016/17 be published on the Council's website.**

7. SCOTTISH BORDERS COUNCIL ANNUAL GOVERNANCE STATEMENT 2016/17

- 7.1 With reference to paragraph 4 of the Minute of 9 May 2016, there had been circulated copies of a report by the Chief Executive seeking approval of the Annual Governance Statement to be published in the Council's Statement of Accounts for 2016/17. The report explained that the CIPFA/SOLACE framework "Delivering Good Governance in Local Government" urged Local Authorities to review the effectiveness of their existing governance arrangements against their Local Code and to prepare a governance statement in order to report publicly on the extent to which they complied with their own Code on an annual basis, including how they had monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period. Part of the Audit & Risk Committee's remit was to assess the effectiveness of internal controls, risk management and governance arrangements and this included 'being satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflected the risk environment and any actions required to improve it, and demonstrated how governance supported the achievements of the authority's objectives'. The Annual Governance Statement 2016/17 was detailed in Appendix 1 to the report and this explained the Governance Framework, including the key elements of the Council's governance arrangements and the Review Framework, outlining the annual review process, overall opinion and areas of further improvement. In terms of

overall corporate governance, it was the Chief Executive's opinion that, although there were a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council were considered sound. The Annual Governance Statement was informed by the self-assessment of compliance against the Local Code by the officer self-evaluation working group, the work of internal audit, external audit and inspection agencies, and by Depute Chief Executives' and Service Directors' assurance statements. This Statement would be published in the Statement of Accounts 2015/16. A number of areas for further improvement to ensure compliance with the Local Code were highlighted and were detailed in Appendix 1, paragraphs (1) to (7). The Chief Executive advised Members that the Council had improved and developed its Governance Framework and continued to demonstrate that the governance arrangements within which it operated were sound and effective.

- 7.2 The Chief Executive advised Members of the progress of implementation of the new ERP system and reiterated the related benefits in terms of financial systems and processes across the Council. Within Human Resources, significant progress in Workforce Planning had been made during the past year. Members were also advised of the progress of the local CGI Centre to be based in Tweedbank.

DECISION

- (a) NOTED the details of the Annual Governance Statement 2016/17 as detailed in Appendix 1 to the report; and**
- (b) APPROVED the actions identified by Management to improve internal controls and governance arrangements.**

8. AUDIT AND RISK COMMITTEE ANNUAL REPORT 2016/17 AND ANNUAL SELF EVALUATION

With reference to paragraph 5 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval of the Audit and Risk Committee Annual Report 2016/17, incorporating its annual self-assessment using the CIPFA Audit Committees Guidance. The Audit and Risk Committee Annual Report 2016/17 was appended as Appendix 1 to the report. The Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 16 January 2017, facilitated by the Chief Officer Audit & Risk. The self-assessments were appended to the report at Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration. The outcome of the self-assessments was a high degree of performance against the good practice principles. Discussion followed and officers responded to Members' questions. Audit Scotland had carried out individual interviews with Members of the Committee and these views would be reflected in the Audit Scotland Annual Report when published

DECISION

- (a) APPROVED the Audit and Risk Committee Annual Report 2016/17 (Appendix 1 to the report) which incorporated its self-assessments (Appendices 2 and 3 to the report), using the CIPFA Audit Committees Guidance; and**
- (c) AGREED to:**
 - (i) present the Audit and Risk Committee Annual Report 2016/17 to Council on 30 March 2017 and then publish it on the Council's website; and**
 - (ii) provide a report summarising all outstanding issues to the new Audit and Risk Committee following the Local Government elections in May 2017.**

9. SCOTTISH BORDERS COUNCIL EXTERNAL AUDIT PLAN FOR 2016/17

9.1 There had been circulated copies of a report by Audit Scotland providing an overview of the planned scope and timing of the audit of Scottish Borders Council which was carried out in accordance with the International Standards on Auditing Code of Audit Practice and other relevant guidance. The Plan identified Audit Scotland's work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit, including the new approach to Best Value. The wider scope of public audit contributed to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. Ms Woolman explained that a number of risks to the Council had been identified and that these had been categorised into either financial or wider dimension risks along with the planned audit work for each and were detailed in the report. Ms Woolman went on to summarise the 2016/17 audit outputs and advised that the Audit Scotland fee for 2016/17 had been reduced by 24% whilst noting that a supplementary fee could be added as detailed in paragraphs 7 and 8 of the report. Materiality values and levels were detailed in the report along with those agreed for the Charitable Trusts. A financial statements timetable for the production of the unaudited accounts was included in the report. This took account of the submission requirements and Audit and Risk Committee dates and indicated that the independent auditor's report would be signed by the end of September 2017. Ms Woolman advised that the review of internal audit had concluded that the internal audit function operated in accordance with the Public Sector Internal Audit and Standards and had sound documentation standards and reporting procedures in place.

9.2 The National Fraud Initiative (NFI) assisted Council's to identify and take appropriate action in respect of fraudulent payments and allowed auditors to assess the arrangements that public bodies had in place to prevent and detect fraud. Ms Woolman advised that there was an audit carried out in this regard every two years. Discussion followed in respect of Best Value Assurance Reports and quality control and in response to a question from Members, Ms Woolman advised that Audit Scotland was held to account by the Scottish Government for its budget.

DECISION

NOTED the report.

10. SCOTTISH BORDERS PENSION FUND EXTERNAL AUDIT PLAN FOR 2016/17

There had been circulated copies of a report by Audit Scotland providing an overview of the planned scope and timing of the audit of Scottish Borders Council Pension Fund which was carried out in accordance with the International Standards on Auditing Code of Audit Practice and other relevant guidance. The Plan identified Audit Scotland's work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributed to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. Ms Woolman explained that a number of risks to the Council Pension Fund had been identified and that these had been categorised into either financial or wider dimension risks along with the planned audit work for each and were detailed in the report. Ms Woolman went on to summarise the 2016/17 audit outputs and advised that the Audit Scotland fee for 2016/17 in relation to the Council's Pension Fund was £19,710 whilst noting that a supplementary fee could be added as detailed in paragraph 7 of the report. Materiality values and levels and a financial statements timetable for the production of the unaudited accounts were detailed in the report. This took account of the submission requirements and Pension Fund Committee dates and indicated that the independent auditor's report would be signed by the end of September 2017. Discussion followed and Ms Woolman provided clarification to Members in relation to the financial statements timetable. The Chief Financial Officer also clarified the governance in place for the Pension Fund. The

Chairman thanked Ms Woolman for the input from and advice given on behalf of Audit Scotland.

DECISION

NOTED the report.

11. INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2017/18

11.1 With reference to paragraph 6 of the Minute of 29 March 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval for the Internal Audit Strategy and Internal Audit Plan 2017/18 to enable the preparation of the annual internal audit opinion on the adequacy of the Council's overall control environment. Ms Stacey explained that the Internal Audit function followed the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) and required the establishment of risk-based plans to determine the priorities of internal audit activity and that these plans were capable of reflecting the changing risks and priorities within the organisation. The Internal Audit function also included the requirement to provide senior management and Elected Members with independent and objective assurance on internal control, risk management and governance to support and improve the Council's operation. The Internal Audit Strategy was laid out in Appendix 1 to the report and the Internal Audit Annual Plan 2017/18 was detailed in Appendix 2. Ms Stacey explained that Internal Audit's programme of work set out the range and breadth of audit areas and work within the audit programme to enable the Chief Officer Audit and Risk to prepare her Internal Audit Annual Opinion and advised that resources were in place to achieve the Internal Audit Annual Plan 2017/18. Members were advised that the Plan for 2017/18 included an updated approach to periodic planning and reporting. A detailed Plan which would incorporate scope and timescales and which would be capable of responding to changes and developments within the Council, would be presented to the new Audit and Risk Committee in due course.

11.2 Discussion followed in relation to the areas covered by Internal Audit Reviews; the way in which relationships and commissioning with ALEOs might develop; the potential need for audit reviews in areas such as operational processes and procedures; the implementation of ERP; compliance of financial procedures in schools; and assurance that contractual responsibilities and requirements were adhered to. With reference to areas of business included in the Internal Audit Plan, Members requested that further information be added to future reports to explain why items had been included in the Plan.

DECISION

AGREED:-

- (a) to approve the Internal Audit Strategy and Internal Audit Annual Plan 2017/18;**
- (b) that the Internal Audit Strategy and Internal Audit Annual Plan 2017/18 remain dynamic and responsive to input from external scrutiny bodies including Audit Scotland;**
- (c) that Senior Management continue to engage with Internal Audit to ensure continuous improvement across all departments of the Council; and**
- (d) that additional information be added to future reports to explain why items had been included in the Internal Audit Plan.**

12. AUDIT AND RISK COMMITTEE EXTERNAL MEMBERSHIP

Members discussed the external membership of the Committee which, according to the current Scheme of Administration, remained at three. Discussion following regarding the criteria for external members and it was agreed that this would be referred for consideration by the new Audit and Risk Committee.

DECISION

AGREED that the external membership of the Audit and Risk Committee be referred for consideration by the new Committee following the Local Government elections in May 2017.

13. CHAIR'S REMARKS

As this was the final meeting of the Audit and Risk Committee during the current period of office of this Council, the Chair thanked fellow Members and officers for their support during what had been a challenging period and wished everyone well for the future.

The meeting concluded at 12.10 pm

Scottish Borders Council Local Scrutiny Plan 2017/18



May 2017

Scottish Borders Council

Local Scrutiny Plan – April 2017 to March 2018

Introduction

1. This local scrutiny plan sets out the planned scrutiny activity in Scottish Borders Council (“the council”) during the financial year 2017/18. The plan is based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the council. The shared risk assessment process draws on a range of evidence with the aim of determining any scrutiny activity required and focusing this in the most proportionate way.
2. This plan does not identify or address all risks in the council. It covers only those risk areas that the LAN has identified as requiring scrutiny, or where scrutiny is planned as part of a national programme. Planned scrutiny activity across all councils in Scotland informs the National Scrutiny Plan for 2017/18, which will be available on the Audit Scotland website.

Scrutiny risks

3. **Education:** The LAN has concluded that no specific additional scrutiny work is required beyond the ongoing inspection and support activity that Education Scotland provides to the council.
4. Improving attainment for all remains one of Scottish Borders Council’s key challenges, including improvement for those who are the lowest performing school leavers and those living in areas of highest deprivation. Plans to spend pupil equity funding are under discussion. Scottish Borders has spent less than half of its Scottish Attainment Challenge (SAC) Schools Programme funding. Education Scotland will continue to monitor this.
5. Education Scotland inspections over the most recent three years indicate significant scope for school improvement within primary and secondary schools. Education Scotland will continue to work with the council to support improvement.
6. **Housing and Homelessness:** To assess the risk to social landlord services the Scottish Housing Regulator (SHR) has reviewed and compared the 2015/16 performance of all Scottish social landlords to identify the weakest performing landlords. The SHR carried out a focused inquiry in March 2016 to have a clearer understanding of reported performance and assess risks. The SHR made recommendations about repeat recording and the closure of cases. The council has acted on the

recommendations and is implementing its improvement plan for the service generally. Some actions continue into 2017/18 to be completed.

7. The council is reviewing the management arrangements for its gypsy/travellers' site to ensure that the requirements and standards described in the Scottish Social Housing Charter are met.
8. The SHR will monitor the council's progress in completing and embedding the improvements identified in this plan.
9. **Social care:** Scottish Borders Integration Joint Board (IJB) was established on 6 February 2016 and assumed delegated authority for the provision of health and social care services. Health and care governance arrangements have been established. The IJB's strategic plan was shaped by stakeholder engagement and outlines the work of the partnership and how services will be shaped over the next three to five years. Arrangements are in place to progress locality planning which will influence the development of local services in the future.
10. A joint inspection of children's services was completed in 2016 (published in June 2016) and no quality indicators were graded as "weak" or "unsatisfactory". Of the nine quality indicators assessed, one was evaluated as "very good", four as "good" and the remaining four as "adequate". The Care Inspectorate will monitor progress of the action plan.
11. SB Cares (the council's arm's-length external organisation for care home services) received their first inspection during 2015/16 and were awarded evaluations of adequate and good.
12. A joint inspection of older people's services is currently being undertaken by the Care Inspectorate and Healthcare Improvement Scotland and the report will be published in 2017.
13. **ICT change:** A significant element of the council's strategy to achieve savings over the period of its financial plan for 2017/18 – 2021/22 is the Corporate Transformation Programme. This is a programme to help the council deliver its corporate priorities through changing the way it delivers services. As part of the Corporate Transformation Programme the council has a Digital Transformation Programme which focusses on changing the way the council uses ICT and how it delivers services digitally. As part of this programme the council has outsourced its ICT service to an external provider, CGI, with council ICT staff transferring to CGI from October 2016.
14. Audit Scotland will monitor the effectiveness of this new arrangement and comment in its annual audit report.
15. **Community Planning:** During 2016 the Scottish Borders Community Planning Partnership (CPP) Strategic Board reviewed its governance arrangements to take account of arrangements in other CPPs and the requirements of the Community Empowerment (Scotland) Act 2015 ("the Act"). Following this review it was agreed that

a CPP Consultative Group be established to set the strategic direction of the Partnership, with the Strategic Board retained as the decision-making group for the CPP. These arrangements will be reviewed after 18 months to confirm their effectiveness. The CPP has continued work to develop locality plans and the Local Outcomes Improvement Plan as required under the Act.

16. The council has continued to implement the sections of the Act, including holding meetings within the community to discuss options available through the Act, as well as providing guidance on the council's website. Audit Scotland will continue to monitor progress with the implementation of the requirements of the Act and the CPP's improvement agenda as part of routine work during the year.

Best Value

17. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Scottish Borders Council is not planned in the period covered by this scrutiny plan. The Best Value audit work planned this year will focus on the council's arrangements for demonstrating Best Value in financial & service planning and financial governance & resource management. This will be reported in the Annual Audit Report.

Planned scrutiny activity

18. As shown in Appendix 1, the council will be subject to a range of risk-based and nationally driven scrutiny activity between April 2017 and March 2018. For some of the scrutiny activity in 2017/18, scrutiny bodies are still to determine in their work programmes which specific councils they will cover. Where a council is to be involved, the relevant scrutiny body will confirm this with the council and the appropriate LAN lead.
19. In addition to specific work shown in Appendix 1, routine, scheduled audit and inspection work will take place through the annual audit process and the ongoing inspection of school and care establishments by Education Scotland and the Care Inspectorate respectively.
20. Audit Scotland will undertake a local Housing Benefit (HB) performance audit during 2017/18 which includes a review of the council's HB performance self-assessment, supporting evidence and updated action plan. The findings of this audit work will be reported separately to the council.
21. Audit Scotland plans to undertake performance audit work in a range of areas covering local government during 2017/18. These include Arm's Length External Organisations (ALEOs), city deals, children's mental health services and health and social care

integration. Any engagement with individual councils is still to be determined. Details of future audit work are available on the Audit Scotland website: <http://www.audit-scotland.gov.uk/our-work/future-work>.

Appendix 1: Scrutiny plan

| Scrutiny body | Scrutiny activity | Date |
|---|---|---|
| Audit Scotland | Best Value audit work will focus on the council's arrangements for demonstrating Best Value in financial & service planning and financial governance & resource management. This will be reported in the Annual Audit Report. | Ongoing as part of 2016/17 annual audit and will be reported in September 2017 |
| | Audit Scotland will undertake performance audits on ALEOs, city deals, children's mental health services and the integration of health and social care. | Dates and locations to be determined |
| | Local HB performance audit which includes a review of the council's HB performance self-assessment, supporting evidence and updated action plan. | July - September 2017 |
| Care Inspectorate and Healthcare Improvement Scotland | A joint inspection of older people's services is being undertaken and will be reported on in 2017. | Ongoing and will be reported during 2017 |
| | In 2017/18, the Care Inspectorate will also lead on thematic activity in the areas of adult support and protection and self-directed support, working with a range of scrutiny partners. | Dates and locations to be determined |
| Scottish Housing Regulator | The Scottish Housing Regulator (SHR) will monitor the council's progress in completing the improvements identified in an agreed action plan. It will review the council's quarterly performance reports and meet council officials as necessary. | Ongoing |
| | The Scottish Housing Regulator (SHR) will publish the findings of its thematic inquiry work into gas safety and repairs completed during 2016/17. It may carry out further thematic inquiries during 2017/18. The SHR will also review the Scottish Social Housing Charter data submitted by landlords and carry out data accuracy visits during the second quarter of 2017/18. Where councils are to be involved in a thematic inquiry or a data accuracy visit, the SHR will confirm this directly with the council and the LAN lead. | Dates and locations for 2017/18 to be determined |
| Education Scotland | A new inspection model for Community Learning and Development (CLD) has been developed. The inspection will be based on the local authority area and will include local authority CLD provision and its partners. | September 2017 |
| | Follow-up review of the quality of Careers Information Advice and Guidance (CIAG) delivered by Skills Development Scotland across all council areas. | April 2017 |
| | Validated Self-Evaluation of Educational Psychology Services | May 2017 |

Scottish Borders Council

Local Scrutiny Plan

2017/18

A summary of local government strategic scrutiny activity

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National scrutiny plan 2017/18

A summary of local government
strategic scrutiny activity



Prepared on behalf of the Strategic Scrutiny Group
May 2017

ACCOUNTS COMMISSION 

 AUDIT SCOTLAND



Inspectorate of
Prosecution in
Scotland



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Background



1. The National Scrutiny Plan for local government has been jointly prepared by members of the Strategic Scrutiny Group (SSG). This group comprises Scotland's main public sector scrutiny bodies – the Accounts Commission, Audit Scotland, Education Scotland, the Care Inspectorate, Healthcare Improvement Scotland, Her Majesty's Inspectorate of Constabulary in Scotland, Her Majesty's Fire Service Inspectorate, Her Majesty's Inspectorate of Prisons, Her Majesty's Inspectorate of Prosecution and the Scottish Housing Regulator. Details of each body can be found in [Appendix 1](#). In this report, they are collectively referred to as scrutiny bodies.

2. The SSG was established in February 2008 to support the delivery of better coordinated, more proportionate and risk-based local government scrutiny. Since then, local government scrutiny bodies (including appointed auditors from private sector audit firms) have worked together through Local Area Networks (LANs) to share intelligence and agree the key scrutiny risks in each of Scotland's 32 councils. Annually, each LAN prepares a Local Scrutiny Plan (LSP) setting out the planned scrutiny activity for the council to respond to those specific risks. LSPs also include nationally programmed scrutiny, such as the Care Inspectorate's joint inspections of services for children, young people and families and joint inspections of adult health and social care services. This approach, called Shared Risk Assessment (SRA), is designed to ensure well coordinated, proportionate and risk-based scrutiny.

3. This 2017/18 National Scrutiny Plan (NSP) for local government is one of the key outputs from the SRA process. It summarises all planned strategic scrutiny activity from April 2017 to March 2018 in each of Scotland's 32 councils¹. It also covers work between scrutiny bodies and councils to validate self-evaluation that is designed to support improvement.

4. A separate table showing planned scrutiny activity is available on the [Audit Scotland website](#) .

¹ Strategic scrutiny work does not include scrutiny activity carried out at service unit or institution level, such as inspections of individual schools or care homes, or the annual financial audit of public bodies.

Part 1

Strategic context



5. This year's NSP has been prepared at a time when councils, other public bodies and their partners continue to review the way they deliver services in light of the financial and demographic challenges they face.

6. The last twelve months have seen unprecedented political, social and financial change in Scotland, the UK and internationally, and it's clear that the future holds more uncertainty. Public scrutiny has a vital role to play in holding public bodies to account and helping them to improve, and this is even more important in times of change.

7. The devolution of powers and responsibilities set out in the Scotland Acts of 2012 and 2016 requires a more strategic approach to Scottish public financial management and reporting as public bodies need to work within an increasingly complex budget process.

8. The outcome of the European Union (EU) referendum, the triggering of Article 50 and the options for Brexit bring significant uncertainty. This creates capacity pressures on the UK and Scottish Governments and has wide-ranging consequences for funding streams to public bodies. The outcome of the Brexit vote and the ongoing negotiations have also reframed the debate about Scottish independence and the prospects for a second independence referendum.

9. The demand for public services is changing, reflecting the make-up of Scotland's population, with greater pressures in particular on health and social care services. Major changes are taking place to how public services are delivered, for example through the integration of health and social care services and greater community empowerment. A consistent theme of much recent scrutiny activity has been the scale of the challenge of delivering transformational change and improving outcomes at a time of rising demand and reducing resources.

10. Public services are increasingly provided through a diverse range of public, private and third sector organisations or through partnership arrangements. This means that services can be delivered in new and innovative ways, but it also creates more complex lines of responsibility and accountability.

11. In this context, it is important that public scrutiny continues to support councils and their partners to work with their populations to ensure they have access to the services and support they need. Equally, objective and authoritative public scrutiny is essential in supporting a strong and effective system of service delivery and financial accountability and transparency in Scotland.

Part 2

Scrutiny activity



National scrutiny programmes

12. There is a range of national scrutiny activity planned across councils over the next year and beyond. Where activity has been identified for 2017/18 that impacts on individual councils and their delivery partners, it is included in the National Scrutiny Plan. In addition, there may be a range of other unplanned scrutiny that takes place across councils during the year. For example, Education Scotland undertook a focused review of local authorities' actions to tackle unnecessary bureaucracy and undue workload in schools in August 2016. This was at the request of the Cabinet Secretary for Education and Skills and was one strand within a wider set of actions announced in the Scottish Government's Delivery Plan. Education Scotland visited each of the 32 local authorities to review the demands placed on schools by local authorities in relation to Curriculum for Excellence. A summary of review findings was published in September 2016.

13. Significant pieces of national scrutiny activity that are planned during 2017/18, as well as developments in scrutiny approaches are outlined below.

Audit Scotland

Best Value


14. In December 2014, the Accounts Commission concluded its review of Best Value and set out principles for a new approach to auditing Best Value. These principles include the need for more frequent assurance on Best Value across all 32 councils, integrating the audit processes, an increased emphasis on driving improvement, and a strong focus on the quality of service experienced by the public and the outcomes achieved.

15. The new approach began to be rolled out from October 2016. It includes an assessment each year of aspects of Best Value as part of an integrated annual audit and a public Best Value Assurance Report (BVAR) for each council at least once in a five-year period that will bring together an overall picture of the council drawn from a range of audit activity. BVARs for the six councils in the first year of the programme will be reported to the Accounts Commission during 2017/18.

16. The five-year rolling Best Value programme will be reviewed and refreshed annually in agreement with the Accounts Commission. The results of the SRA process will make a significant contribution to the audit intelligence that inform decisions about the programme, both in terms of the sequencing and timing of audits and the focus of audit work at individual councils.

National performance audits

17. Audit Scotland carries out a programme of national performance audits that it undertakes on behalf of the Accounts Commission and Auditor General

for Scotland. Audit Scotland has several performance audits covering local government planned during 2017/18. It will be carrying out audits covering arm's-length external organisations (ALEOs), city deals, children's mental health and health and social care integration. Any engagement with individual councils is still to be determined. Details of the performance audit programme for 2017/18 is available [here](#) 

Housing benefit risk assessments

18. Audit Scotland will also continue to carry out a national programme of housing benefit risk assessments across councils during 2017/18. It will review its future approach to the scrutiny of benefits in light of the changing powers around social security in Scotland and recent changes to Best Value auditing.

Care Inspectorate

Alcohol and drugs partnerships

19. During 2016/17, the Care Inspectorate carried out Validated Self-Evaluation (VSE) activity with Alcohol and Drug Partnerships (ADPs). The purpose of this activity was to support the validation of ADP and services' self-assessment of local implementation and service compliance with the Quality Principles: Standard Expectations of Care and Support in Drug & Alcohol Services. The findings from this validation work will inform the future programme of national support for continuous improvement. The Care Inspectorate provided feedback from its work to individual ADPs in December 2016 and is due to publish a national overview report in May 2017.

Joint inspection of services for children

20. As part of the Child Protection Improvement Programme announced by the Minister for Childcare and Early Years in March 2017, the Care Inspectorate will lead the development of a future model of joint inspection of services for children that focuses on the experiences of, and outcomes for, the most vulnerable children. In developing the revised framework, the Care Inspectorate is chairing a short-life working group, which includes scrutiny partners, to consider all recommendations from inspections relevant to the Child Protection Improvement Programme. In particular, the group is looking at systems review, data, evidence and leadership. The group is also considering how scrutiny and improvement work can best be provided for services for all children and families, including collaborating with other partners to develop and improve the use of self-evaluation tools. The Care Inspectorate is scheduled to provide a report to ministers by 31 May 2017, recommending the way forward for a revised inspection framework, including the proposed scope of future inspections. This framework is to be in place by the time the current framework concludes in December 2017.

Coordinating national and local scrutiny of progress with health and social care integration

21. There are a number of scrutiny bodies with an interest in the performance of integration authorities and the progress that is being made nationally and locally in delivering health and social care integration:

- The Accounts Commission is responsible for appointing external auditors to integration authorities.
- During 2017/18 the Auditor General for Scotland and the Accounts Commission will be undertaking their second national performance audits on health and social care integration. This audit will follow up on

the emerging risks highlighted in their initial December 2015 report and will assess the early impact that health and social care integration is having in shifting the balance of care and improving outcomes for older people. It will consider issues such as: governance arrangements; budget setting; strategic planning; engagement with the voluntary sector, GPs, and housing providers; the development of locality planning; and, carer and user involvement.

- From 1 April 2017, the Care Inspectorate and Healthcare Improvement Scotland (HIS) have new responsibilities to inspect the planning, organisation or coordination of the services that health boards and local authority's delegate to integration authorities, as set out within their integration schemes. The Care Inspectorate and HIS must also review and evaluate the effectiveness of the integration authority's strategic plan, and encourage improvement in the effectiveness of that plan if necessary. They will commence a programme of joint inspections of health and care partnerships in 2017/18, focusing on joint strategic planning and commissioning, governance and leadership and outcomes for adults/older people.

22. Audit Scotland, the Care Inspectorates and HIS will coordinate their various audit and inspection interests in integration authorities and health and social care integration, drawing on each other's work and deploying joint teams where appropriate.

Thematic review of adult support and protection

23. Adult support and protection was included as a focus area during the Care Inspectorate-led joint inspections of services for older people undertaken between 2012/13 and 2016/17.

24. In light of reviewing the methodology for joint inspections of services for older people to focus on the quality of strategic commissioning, in 2017/18 the Care Inspectorate will lead on developing a joint approach to scrutinising adult support and protection. This is an approach that should identify strengths and areas for improvement that can be disseminated relatively quickly across partnership areas. It may also help inform policy planning, development and implementation, support improvement nationally and identify whether additional more targeted scrutiny and assurance may be required.

Thematic review of self-directed support implementation

25. This remains a key Scottish Government policy. Self-directed support was included as a focus area during the joint inspections of services for older people undertaken between 2012/13 and 2016/17. In light of the review of the methodology for joint inspections of services for older people, during 2017/18 the Care Inspectorate will lead on developing a thematic review of aspects of self-directed support. As with adult support and protection, this approach should help inform policy planning, development and implementation and identify whether additional more targeted scrutiny and assurance is required.

26. The Care Inspectorate's work on self-directed support will complement and build on the audit work that Audit Scotland has been carrying out over the past year in following up its first audit on [Self-directed support](#)  in June 2014. The outputs of the current audit work will be published during the summer of 2017.

Education Scotland


27. Education Scotland is currently reviewing arrangements for providing public assurance on the quality of the education functions of local authorities. Its inspectors

will undertake appropriate independent or joint evaluative activity within local authorities to report publicly on raising educational attainment and closing the attainment gap. During 2017/18, Education Scotland's scrutiny programme will continue to include validated self-evaluation of educational psychology services; strategic inspection of community learning and development provision; and scrutiny work on the quality of careers information and guidance services delivered by Skills Development Scotland across council areas.

Her Majesty's Fire Service Inspectorate (HMFSI)

28. HMFSI will continue to inspect Scottish Fire and Rescue Service (SFRS) local service delivery across Scotland. These inspections will examine, among other things, local scrutiny and engagement between the SFRS and councils. As part of its programme, HMFSI intends to inspect service delivery in three local authority areas during 2017/18. HMFSI also has a programme of thematic inspection planned, but this work is unlikely to result in contact with local authorities. However, HMFSI may also carry out ad hoc inspections in response to specific events, which could involve contact with local authorities.

Her Majesty's Inspectorate of Constabulary in Scotland (HMICS)

29. HMICS will continue to inspect local policing divisions across Scotland. Divisional inspections will cover partnership working and in particular, local scrutiny and engagement between Police Scotland and councils and the local Community Planning Partnership and Community Safety Partnership. Local police inspections also include a 'plus' element, which aims to investigate national issues through a local lens. These elements are subject to separate reports published on its website www.hmics.org.uk .

Her Majesty's Inspectorate of Prisons for Scotland (HMIPS)

30. HMIPS will inspect prisons in Scotland, jointly with Healthcare Improvement Scotland, Education Scotland, the Care Inspectorate and the Scottish Human Rights Commission. Each prison will be monitored on a weekly basis by volunteer Independent Prison Monitors who are allocated to each prison. Reports of findings from both inspection and monitoring are published regularly throughout the year. In 2017/18, HMIPS will also publish its report of a study of the lived experience of older prisoners in Scotland's prisons.

Inspectorate of Prosecution in Scotland (IPS)

31. The IPS will publish the findings of its thematic inquiry work completed during 2016/17, including a review of the investigation and prosecution of sexual crimes in Scotland, having regard to the availability of support agencies for victims provided in local authority areas. As part of its programme, IPS will continue to inspect service delivery by the Crown Office and Procurator Fiscal Service at both national and local level.

Scottish Housing Regulator (SHR)

32. The SHR will publish the findings of its thematic inquiry work into gas safety and repairs completed during 2016/17. It may carry out further thematic inquiries during 2017/18. The SHR will also review the Scottish Social Housing Charter data submitted by landlords and carry out data accuracy visits during the second quarter of 2017/18. Where councils are to be involved in a thematic inquiry or a data accuracy visit, the SHR will confirm this directly with the council and the LAN lead.

33. The SHR has identified four local authorities for scrutiny this year – Glasgow City, Dumfries & Galloway, Shetland Islands, and Highland councils. The SHR's engagement with Glasgow City and Dumfries & Galloway councils is continuing from last year because of serious performance issues around homeless services. Shetland Islands and Highland councils have been identified for scrutiny this year, because of their poor performance around a range of tenant service performance indicators, and in the case of Shetland, scrutiny risks in relation to its homeless service.

34. The SHR plans to carry out its scrutiny with these four councils by means of ongoing engagement throughout the year. It has not identified the need for any specific on-site scrutiny work and as such, its engagement with the councils is not reflected in the national scrutiny plan for 2017/18.

Part 3

Strategic scrutiny group priorities



35. Since it was established in 2008, the Strategic Scrutiny Group (SSG) delivered more coordinated scrutiny in local government by implementing the SRA process in Scotland's 32 councils.

36. The SSG also continues to act as a forum for scrutiny bodies to discuss key strategic scrutiny developments (eg, Accounts Commission's new approach to auditing Best Value in local government, Healthcare Improvement Scotland's new approach to assessing the quality of care in Scotland and building improvement capacity in the NHS, Education Scotland's developments in inspection approaches, and the Care Inspectorate-led joint review of approaches to inspecting children and adults' services) and identifying opportunities for aligning assessment frameworks and methodologies.

37. A key ambition for the SSG is to move beyond the coordination of scrutiny towards greater collaboration and integration of scrutiny activity and approaches.

38. Over the next year the SSG's priorities are to focus its collective efforts in areas that:

- will deliver improvements in efficiency and add value to how scrutiny is delivered;
- create more public value through greater collaboration and the alignment of scrutiny assessment frameworks and approaches; and
- will deliver more sharing of skills and expertise across scrutiny bodies and ensure that scrutiny partners are learning from each others good practices and from scrutiny approaches and methodologies.

39. The SSG has identified several cross-cutting themes (Community Empowerment, Integrated public service delivery, prevention, addressing inequalities and improvement) as potential lenses through which any future collaborative scrutiny can be viewed. There are also several practical areas already identified for scrutiny activity where greater collaborative scrutiny between SSG members can be developed, including:

- Health and social care integration
- Fire reform
- Mental Health (including prisoner healthcare and support)
- Housing

- Children's Services
- Educational attainment.

40. The SSG is keen to use future collaborative scrutiny activity as an opportunity to test new approaches to scrutiny in line with the recommendations of its 2016 short-life working group on 'Scrutiny in the 21st century'. This would mean:

- focusing on the impact that implementation of the community empowerment and integrated children's services agendas are having on improving outcomes and addressing inequalities within specific communities
- adopting more flexible approaches to resourcing scrutiny activity (shared leadership of scrutiny teams, staff secondments, etc.)
- testing common methodologies and scrutiny approaches.

Appendix 1

The Local Government Scrutiny Coordination Strategic Group members



| | |
|--|--|
| Accounts Commission | The Accounts Commission is a non-departmental public body (NDPB). The Accounts Commission is the public's independent watchdog for local government in Scotland. Its role is to examine how Scotland's 32 councils manage their finances, help these bodies manage their resources efficiently and effectively, promote Best Value and publish information every year about how they perform. |
| Audit Scotland | Audit Scotland is a statutory body providing services to the Accounts Commission and the Auditor General for Scotland (AGS). Working together, the Accounts Commission, the AGS and Audit Scotland ensure that public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds. |
| Care Inspectorate | The Care Inspectorate is a non-departmental public body (NDPB). Its purpose is to provide robust, independent assurance and protection for people who use social work and social care services and support innovation and improvement. It undertakes work itself or with scrutiny partners as in the case of children's services inspections. |
| Education Scotland | Education Scotland is an executive agency. It is the Scottish Government's national development and improvement agency for education. It is charged with providing support and challenge to the education system, from early years to adult learning, in line with the government's policy objectives. |
| Healthcare Improvement Scotland | Healthcare Improvement Scotland (HIS) is a health body. The function of HIS is to improve the quality of the care and experience of every person in Scotland every time they access healthcare by supporting healthcare providers. |
| Her Majesty's Fire Service Inspectorate | Her Majesty's Fire Service Inspectorate in Scotland exists to provide independent, risk based and proportionate professional inspection of the Scottish Fire and Rescue Service. Its purpose is to give assurance to the Scottish public and Scottish ministers that the Service is working in an efficient and effective way, and to promote improvement in the Service. Through this, the Inspectorate provides external quality assurance to the Service, and provides support to the Service in delivering its functions. |
| Her Majesty's Inspectorate of Constabulary in Scotland | Her Majesty's Inspectorate of Constabulary in Scotland (HMICS) provides independent scrutiny of both Police Scotland and the Scottish Police Authority. Its approach is to support Police Scotland and the Authority to deliver services that are high quality, continually improving, effective and responsive to local needs. It can inspect other UK police services that operate in Scotland and are members of the National Preventive Mechanism, inspecting police custody centres to monitor the treatment and conditions for detainees. |
| Her Majesty's Inspectorate of Prisons for Scotland | Her Majesty's Chief Inspector of Prisons for Scotland provides oversight and scrutiny of the 15 prisons in Scotland, by way of inspection and monitoring, in order to report on the conditions in prison and the treatment of prisoners. Monitoring is conducted by volunteer Independent Prison Monitors, who are required to visit every prison every week, to respond to prisoners' requests and to monitor conditions. HMIPS also has responsibility for inspecting court custody cells and the conditions in which prisoners are transported. |

| | |
|---|--|
| Inspectorate of Prosecution in Scotland | The Inspectorate of Prosecution in Scotland is headed by HM Chief Inspector who reports directly to the Lord Advocate. The aim of the Inspectorate is to enhance the quality of service and public confidence in the Crown Office and Procurator Fiscal Service through independent inspection and evaluation. |
| Scottish Housing Regulator | The Scottish Housing Regulator (SHR) is a non-ministerial department. The statutory objective of the SHR is to safeguard and promote the interests of people who are or may become homeless, tenants of social landlords, or recipients of housing services provided by social landlords. |

Appendix 2

Glossary



| | |
|--|--|
| Local Scrutiny Plan (LSP) | Document which captures agreed areas of risk and good practice, and the resulting scrutiny response for each council. It is the primary planning document for scrutiny bodies. |
| Local Area Network (LAN) | There is a LAN for each council, comprising representatives of all the scrutiny bodies who engage with the council. LAN members ensure that information and intelligence held by each scrutiny body is shared. |
| Local Government Benchmarking Framework (LGBF) | The LGBF reports on how much councils spend on particular services, their performance and how satisfied people are with these services. It supports evidence-based comparisons between similar councils so that they can work and learn together to improve their services. |
| National Scrutiny Plan (NSP) | The aggregation of the individual council's scrutiny plans into a national plan detailing all the scrutiny work planned across Scottish councils. |
| Scottish Social Housing Charter | The Scottish Social Housing Charter sets the standards and outcomes that all social landlords should aim to achieve when performing their housing activities. The Charter was approved by the Scottish Parliament and came into effect from 1 April 2012 and has been revised with effect from 1 April 2017. |
| Shared Risk Assessment (SRA) | A joint approach using key information about local government to plan scrutiny activity that is proportionate and based on risk. |
| Validated self-evaluation (VSE) | Assistance provided by Education Scotland to councils on request, to help them develop their own methods and quality of self scrutiny. |

National scrutiny plan 2017/18

A summary of local government strategic scrutiny activity

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National Scrutiny Plan for Local Government 2017/18

| Council | Q1 | | | Q2 | | | Q3 | | | Q4 | | |
|---------------------|----------|---------|------------------|--------|--------|-----------|---------|----------|----------|---------|----------|---------|
| | April | May | June | July | August | September | October | November | December | January | February | March |
| Aberdeen City | | | | | | | | | | | | |
| Aberdeenshire | | | | | | | CLD | | | | | CIAG |
| Angus | | | Police (Tayside) | | | | | | | | | |
| Argyll & Bute | | | EA F/U | | | EA F/U | | | | | | |
| Clackmannanshire | | | | | BVAR | | | | | EPS | | ASI |
| Dumfries & Galloway | | | | | | | CIAG | | CLD | EPS | | |
| Dundee City | | | Police (Tayside) | | | | | | | | | |
| East Ayrshire | | EPS | | | CSI | | | CSI | | CLD | | |
| East Dunbartonshire | | CLD | | BV F/U | | | | | | | | |
| East Lothian | | | | | | EPS F/U | BVAR | | | | CLD | |
| East Renfrewshire | BVAR | | | | | | | | | | | |
| City of Edinburgh | | | | | | | | CIAG | | Fire | HB | CLD F/U |
| Eilean Siar | HB | CSI F/U | | | | | | EPS F/U | | ASI F/U | | |
| Falkirk | BV F/U | | | | | | EPS | | | | | |
| Fife | | | | | | CIAG F/U | BVAR | | | CLD | | |
| Glasgow City | CIAG F/U | | | | | | BVAR | | | | | |
| Highland | | | Fire | | | | | | | | | |
| Inverclyde | | CSI | | | | | | | | | CIAG | |
| Midlothian | | | | | | | | | | | | |
| Moray | | | | HB | | CSI F/U | | | | CLD | | |
| North Ayrshire | | CLD | | | | | | | | | | |
| North Lanarkshire | | | CLD | | ASI | | | | Fire | | | |
| Orkney Islands | BVAR | | | | | CIAG | | CLD | | | | |
| Perth & Kinross | | | Police (Tayside) | | | | CSI | | CSI | CLD | | |
| Renfrewshire | BVAR | | | | | | | ASI | | CLD | | |
| Scottish Borders | CIAG F/U | EPS | | HB | | CLD | | | | | | |
| Shetland Islands | | | | | | | HB | EPS | | | | |
| South Ayrshire | | | | | | CIAG F/U | | | | CSI F/U | | |
| South Lanarkshire | | | | | | | | | | | | |
| Stirling | | EPS | | | | | | | | | CLD | ASI |
| West Dunbartonshire | | | | | | | BVAR | | | | | |
| West Lothian | BVAR | | | | | | HB | | | | | |

Key

| Audit Scotland | |
|--------------------------------------|--|
| Best Value Follow-up (BV F/U) | |
| Best Value Assurance Report (BVAR) | |
| Housing Benefit Risk Assessment (HB) | |

| Care Inspectorate/Multi-agency | |
|--------------------------------------|--|
| Children's Services Inspection (CSI) | |
| Adult Services Inspection (ASI) | |

| Education Scotland | |
|---|--|
| Valided self-evaluation of Education Psychology Service (EPS) | |
| Inspection of Careers Information Advice and Guidance (CIAG)/Follow Up (CIAG F/U) | |
| Inspection of education authority (EA)/Follow Up (EA F/U) | |
| Inspection of Community Learning and Development (CLD)/Follow Up (CLD F/U) | |

| HMFSI | |
|-------------------------------|--|
| Local area inspections (Fire) | |

| HMICS | |
|------------------------------------|--|
| Local policing inspection (Police) | |

National Scrutiny Plan for Local Government 2017/18

| Council | Previous scrutiny activity 2014/15 - 2016/17 |
|---|--|
| Aberdeen City | Children's Services Inspection (CSI), 2014/15. Community Planning Partnership Audit (CPP), Adult Services Inspection (ASI), Multi-Agency Public Protection Arrangements (MAPPA), Housing Benefit Risk Assessment (HB), 2015/16. |
| Aberdeenshire | Children's Services Inspection (CSI), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), 2015/16 . Housing Benefit Risk Assessment (HB), Education Psychology Service (EPS), Careers Information (CIAG), 2016/17. |
| Angus | Adult Services Inspection (ASI), 2014/15. Multi-Agency Public Protection Arrangements, (MAPPA), Best Value Follow-up (BV F/U), 2015/16 . Children's Services Inspection (CSI) 2016/17. |
| Argyll & Bute | Housing Benefit Risk Assessment (HB), Best Value Follow-up (BV F/U), Skills Development Scotland (SDS), 2014/15. Adult Services Inspection (ASI), Multi-Agency Public Protection Arrangements (MAPPA), Best Value Follow-up (BV F/U), 2015/16. |
| Clackmannanshire | Housing Benefit Risk Assessment (HB), Validated Self-Evaluation (VSE), Skills Development Scotland (SDS), 2014/15. Children's Services Inspection (CSI), 2014/15, Multi-Agency Public Protection Arrangements, (MAPPA), 2015/16. Education Psychology Service (EPS), Local Area Network additional work (LAN), 2016/17. |
| Dumfries & Galloway | Additional annual audit work (AAA), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Validated Self-Evaluation (VSE), Children's Services Inspection, (CSI), Adult Services Inspection (ASI), Performance Investigation (SHR), 2015/16. Performance Investigation (SHR), Education Psychology Service (EPS), 2016/17. |
| Dundee City | Multi-Agency Public Protection Arrangements (MAPPA), Children's Services Inspection (CSI), Local area inspections (Fire), 2015/16. Housing Benefit Risk Assessment (HB), Education Psychology Service (EPS), 2016/17. |
| East Ayrshire | Validated Self-Evaluation (VSE), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), 2015/16. Housing Benefit Risk Assessment (HB), Education Psychology Service (EPS), Careers Information (CIAG), 2016/17. |
| East Dunbartonshire | Housing Benefit Risk Assessment (HB), Best Value Follow-up (BV F/U), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Education Psychology Service (EPS), 2015/16. Best Value Follow-up (BV F/U), Performance Investigation (SHR), 2016/17. |
| East Lothian | Multi-Agency Public Protection Arrangements (MAPPA), Adult Services Inspection (ASI), Housing Benefit Risk Assessment (HB), 2015/16. Performance Investigation (SHR), 2016/17. |
| East Renfrewshire | Housing Benefit Risk Assessment (HB), Children's Services Inspection (CSI), 2014/15. Public Protection Arrangements (MAPPA), Local area inspections (Fire), 2015/16. Housing Benefit Risk Assessment (HB), Education Psychology Service (EPS), 2016/17. |
| City of Edinburgh | Housing Benefit Risk Assessment (HB), Best Value Follow-up (BV F/U), 2014/15. Public Protection Arrangements (MAPPA), Local policing inspection (Police), Best Value Follow-up (BV F/U), 2015/16. Adult Services Inspection (ASI), Careers Information (CIAG), 2016/17. |
| Eilean Siar | Housing Benefit Risk Assessment (HB), 2014/15. Children's Services Inspection (CSI), Adult Services Inspection (ASI), Multi-Agency Public Protection Arrangements, (MAPPA), Local area inspections (Fire), 2015/16. Education Psychology Service (EPS), 2016/17. |
| Falkirk | Targeted Best Value Audit (TBV), Adult Services Inspection (ASI), 2015/16. Multi-Agency Public Protection Arrangements (MAPPA), Community Planning Partnership Audit (CPP), Children's Services Inspection (CSI), Housing Benefit Risk Assessment (HB), 2015/16. Best Value Follow-up (BV F/U), Education Psychology Service (EPS), Careers Information (CIAG), 2016/17. |
| Fife | Adult Services Inspection (ASI), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Children's Services Inspection (CSI), Careers Information (CIAG), 2015/16. Housing Benefit Risk Assessment (HB), Education Psychology Service (EPS), 2016/17. |
| Glasgow City | Housing Benefit Risk Assessment (HB), Skills Development Scotland (SDS), Adult Services Inspection (ASI), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Community Planning Partnership Audit (CPP), Careers Information (CIAG), 2015/16. Performance Investigation (SHR), Children's Services Inspection (CSI), Local area inspections (Fire), 2016/17. |
| Highland | Adult Services Inspection (ASI), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), 2015/16. Education Psychology Service (EPS), 2016/17. |
| Inverclyde | Education Psychology Service (EPS), Multi-Agency Public Protection Arrangements (MAPPA), 2015/16. Housing Benefit Risk Assessment (HB), 2016/17. |
| Midlothian | Education Psychology Service (EPS), Housing Benefit Risk Assessment (HB), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), 2015/16. |
| Moray | Best Value Follow-up (BV F/U), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Best Value Follow-up (BV F/U), Education Psychology Service (EPS), Housing Benefit Risk Assessment (HB), Community Planning Partnership (CPP), 2015/16. Careers Information (CIAG), Children's Services Inspection (CSI), Local area inspections (Fire), 2016/17. |
| North Ayrshire | Multi-Agency Public Protection Arrangements (MAPPA), Housing Benefit Risk Assessment (HB), Community Planning Partnership (CPP), 2015/16. Education Psychology Service (EPS), 2016/17. |
| North Lanarkshire | Scottish Housing Quality Standard (SHQS), Children's Services Inspection (CSI), Skills Development Scotland (SDS), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Housing Benefit Risk Assessment (HB), 2015/16. Education Psychology Service (EPS), 2016/17. |
| Orkney Islands | Performance Inquiry, Scottish Housing Quality Standard (SHQS), Community Planning Partnership (CPP), 2014/15. Education Psychology Service (EPS), Multi-Agency Public Protection Arrangements (MAPPA), Housing Benefit Risk Assessment (HB), Performance Investigation (SHR), Community Planning Partnership Audit (CPP), 2015/16. Education Psychology Service (EPS), Careers Information (CIAG), Adult Services Inspection (ASI), 2016/17. |
| Perth & Kinross | Multi-Agency Public Protection Arrangements (MAPPA), Housing Benefit Risk Assessment (HB), Careers Information (CIAG), 2015/16. Performance Investigation (SHR), 2016/17. |
| Renfrewshire | Housing Benefit Risk Assessment (HB), Multi-Agency Public Protection Arrangements (MAPPA), 2015/16. |
| Scottish Borders | Housing Benefit Risk Assessment (HB), Additional annual audit work (AAA), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Careers Information (CIAG), Community Planning Partnership Audit (CPP), Children's Services Inspection (CSI), 2015/16. Local area inspections (Fire), Adult Services Inspection (ASI), 2016/17. |
| Shetland Islands | Adult Services Inspection (ASI), Children's Services Inspection (CSI), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Careers Information (CIAG), Housing Benefit Risk Assessment (HB), 2015/16. |
| South Ayrshire | Validated Self-Evaluation (VSE), Best Value Follow-up (BV F/U), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Best Value Follow-up (BV F/U), 2015/16. Local area inspections (Fire), Best Value Follow-up (BV F/U), Children's Services Inspection (CSI), 2016/17. |
| South Lanarkshire | Children's Services Inspection (CSI), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Adult Services Inspection (ASI), 2015/16. Housing Benefit Risk Assessment (HB), 2016/17. |
| Stirling | Validated Self-Evaluation (VSE), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), 2015/16. Housing Benefit Risk Assessment (HB), Education Psychology Service (EPS), Careers Information (CIAG), 2016/17. |
| West Dunbartonshire | Multi-Agency Public Protection Arrangements (MAPPA), 2015/16. Children's Services Inspection (CSI), Careers Information (CIAG), 2016/17. |
| West Lothian | Housing Benefit Risk Assessment (HB), Community Planning Partnership Audit (CPP), Skills Development Scotland (SDS), 2014/15. Multi-Agency Public Protection Arrangements (MAPPA), Education Psychology Service (EPS), Community Planning Partnership Audit (CPP), Local area inspections (Fire), 2015/16. Children's Services Inspection (CSI), 2016/17. |

Scottish Borders Council Interim Audit Report 2016/17

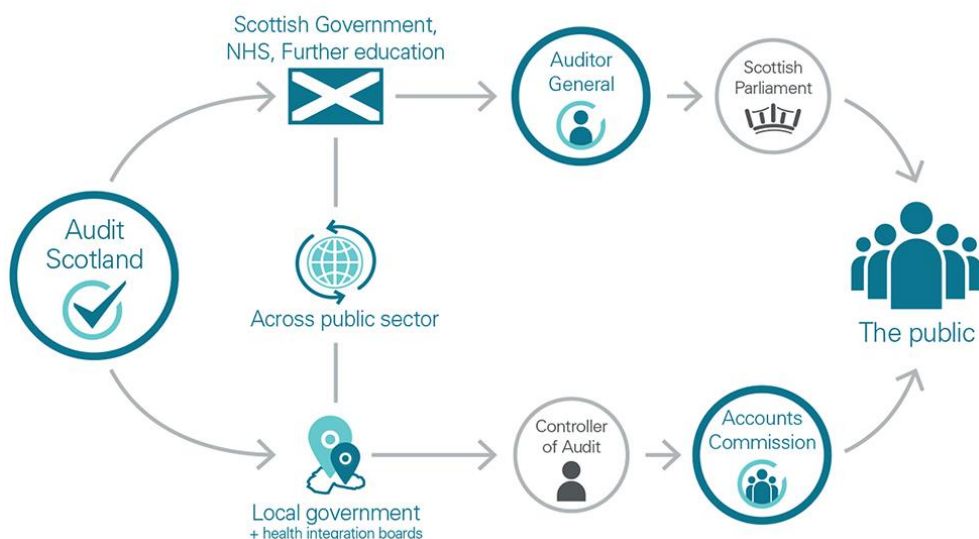


Prepared for Scottish Borders Council
June 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. This report contains a summary of the key issues identified during our interim audit work carried out at Scottish Borders Council ('the council'). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. Also, under the Code of Audit Practice (2016) we have carried out work on the wider dimension audit. We have reviewed the council's approach to financial planning and will be carrying out work on financial governance and transparency in the coming weeks. We will report our findings in these areas in our Annual Audit Report.

Conclusion

4. Based on our review and testing of the main financial systems, and subject to management addressing the points raised in the action plan, we have concluded that Scottish Borders Council:

- has adequate systems for recording and processing transactions to ensure financial statements are appropriately prepared and the council's assets are effectively managed
- has systems of internal control which provide sufficient means of preventing and detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulation.

Work summary

5. The following table summarises the key systems that we have tested in our interim audit for financial year 2016/17.

| Key System | Audit coverage |
|------------------------------------|---------------------------------------|
| Payroll | √ (including internal audit reliance) |
| General Ledger | √ |
| Trade Payables | √ (including internal audit reliance) |
| Trade Receivables | √ |
| Cash and Banking | √ |
| Treasury Management | √ |
| Council Tax and Non Domestic Rates | √ (including internal audit reliance) |
| Pensions Administration | √ |

6. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

7. In an effort to avoid duplication, our review included re-performing a sample of internal audit work on non domestic rates and creditors controls to limit the scope of our testing in this area. We can conclude that our findings are consistent with internal audit and we can, therefore, place formal reliance on their work in this area.

8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Risks identified

9. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

10. We reviewed payroll controls in place at the council. An expected key control is that periodic checks are carried out to ensure that all staff on the payroll are valid employees. Currently the check of staff on payroll and the costs being charged to appropriate budgets is carried out as part of the budget monitoring arrangements, with details being provided to budget holders for review. However, evidence of this check is not routinely recorded.

11. We were advised that in addition to these ongoing reports there is an employee validation check during the budget setting process where Finance staff meet Budget Holders to validate their establishment. In addition to this, Internal Audit carry out independent sample checks to validate employees as part of their work during the year. On the basis of these assurances we have not included this matter in the action plan.

12. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Scottish Borders Council.

Exhibit 1

Key findings and action plan 2016/17

| Issue identified | Management response | Responsible officer and target date |
|--|---|---|
| Audit findings | | |
| <p>Bank reconciliations</p> <p>We reviewed a sample of bank reconciliations during the year to confirm that the reconciliations were being carried out and checked timeously. The bank reconciliations for the pension fund bank accounts had not been prepared for four months from November to February.</p> <p>Risk: There is an increased risk of fraud or errors not being identified if reconciliations are not carried out regularly.</p> <p>Recommendation: We recommend that arrangements are put in place to ensure that reconciliations are carried out regularly throughout the year.</p> | <p>Agreed. The normal monthly process for reconciliation of bank accounts was temporarily suspended during 2016/17 due to staffing pressures and the focus being placed on other work related priorities including the implementation of the new ERP system business world.</p> <p>Bank accounts, including the Pension Fund account continued to be monitored by finance staff during the period referred to, although formally documented reconciliations did not take place during this 4 month period. The previous process with documented reconciliations being undertaken and evidenced on a monthly basis has now been re-instated. 2016/17 bank account is now fully reconciled.</p> | <p>Chief Financial Officer 30/6/17.</p> |
| <p>Supporting documentation</p> <p>We tested a sample of journals back to supporting documentation stored on a shared finance drive. Testing revealed that supporting documentation confirming the reason for the journal, or who authorised it, is not always stored on the shared drive.</p> <p>Risk: There is an increased risk of incorrect journals.</p> <p>Recommendation: Adequate supporting documentation should be maintained demonstrating the reason for journals as well as recording who raised and authorised it.</p> | <p>Agreed. Updated instructions accompanied by training has been issued to all finance staff following the implementation of Business World to ensure appropriate documentary evidence to support journal entries is saved with the journal online</p> | <p>Chief Financial Officer 31/5/17</p> |

Source: Audit Scotland

13. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Interim Audit Report 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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Financial Reporting & Scrutiny: Why the Accounts Matter



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Financial Reporting & Scrutiny: Why the Accounts Matter

The role of financial reporting

1. Effective planning, management and scrutiny of the use of public funds are a key part of a local authority's responsibilities. The financial statements (commonly known as the accounts) are a vital part of the accountability framework, as they demonstrate how an authority has spent its resources. They also record assets used, and liabilities incurred, in delivering services.
2. Audited accounts provide the public with reliable information about the stewardship of funds and the financial position of the authority. They provide elected members with information to scrutinise the use of funds in each year, and to make budgetary decisions for the future.
3. The accounts are prepared based on International Financial Reporting Standards (IFRS). Under local government accounting rules councils make a number of adjustments to the IFRS financial results to determine the impact on the General Fund, and consequently the level of council tax set for future years. For example large adjustments are made for the accounting treatment of fixed assets and pension costs. Councils monitor their financial results relative to the General Fund, and not on an IFRS basis. In taking decisions, it is therefore important that members understand the link between what the accounts show on the council's spending, assets and liabilities, and the budgetary outturn information.

Your role in the accounts process

| Role of the s95 officer | Role of elected members | Role of the auditor |
|--|--|--|
| <ul style="list-style-type: none"> • Responsible for the preparation and submission of the financial statements, in accordance with proper accounting practice. • To support the Audit Committee in their scrutiny role. | <ul style="list-style-type: none"> • To scrutinise and approve the accounts. • To consider the financial results reported in setting future budgets and reserves policies. • To consider the annual audit report and hold officers to account on areas of concern reported. | <ul style="list-style-type: none"> • To provide an independent auditor's report on whether the accounts show a 'true and fair view' of the financial position. • To provide an annual audit report addressed to members and the Controller of Audit, reporting significant audit findings. |

Developments in financial reporting in 2014/15

4. In 2014/15 council's faced the challenge of producing the accounts to tighter timescales as prescribed by new accounts regulations¹.
5. External auditors said that councils generally met this challenge well. They commented as follows:
 - The councils did well to bring forward the completion of the accounts for approval by members by 30 September.
 - Members welcomed receiving the audited accounts for approval alongside the auditors' annual audit reports.
6. The auditors also commented on some areas for improvement:
 - The accounts are complex and lengthy documents. Some s95 officers could do more to explain to the Audit Committee the role of the accounts, and what they show about the council's performance.
 - The management commentaries could do more to explain the overall picture regarding the council's financial performance and challenges.
 - Some members need more guidance on what they are looking for when reviewing and approving the accounts.
 - It is disappointing that members do not ask more questions about the issues raised in our annual audit reports.
 - The standing orders in some councils need to be updated to reflect the processes adopted for approving the accounts under the new regulations.
7. In light of these key messages we have compiled a list of questions, at Appendix 1, for members to consider when reviewing the accounts.
8. Your local auditor will request an opportunity to discuss this paper with members of the audit committee prior to the June meeting at which they consider the draft accounts. The expectation is that the audit committee members could then use the questions in considering the accounts and annual audit report at their meetings in June and September.
9. This paper complements the messages in the 2011 Local Authority (Scotland) Accounts Advisory Committee's publication 'Holding to Account, Using Local Authority Financial Statements.'

¹ The Local Authority Accounts (Scotland) Regulations 2014

Appendix 1

Questions for elected members to consider as part of the accounts scrutiny and approval process

| Stewardship of the council's funds | Your answer |
|--|-------------|
| <p>1. Does the auditor's report included in the accounts give you independent assurance on how the financial position of the council has been reported?</p> | |
| <p>2. Does the council's governance statement provide you with assurance that the internal controls and governance arrangements are operating effectively? Does it adequately disclose any risk areas that you are aware of?</p> | |
| <p>3. Does the annual audit report provide you with assurance that:</p> <ul style="list-style-type: none"> • financial management of the council is effective? • financial sustainability of the council is demonstrated? • the council reports on its financial and service performance in a transparent way? • the council demonstrates Best Value in how its funds are used? • management have responded appropriately to any audit recommendations? | |
| Sustainability of services | |
| <p>4. Does the management commentary in the accounts clearly explain to you the financial position of the council?</p> | |
| <p>5. Do you understand how the figures in the comprehensive income and expenditure statement link to the budgetary outturn information that you have considered for this year?</p> | |

| | |
|--|--|
| | |
| 6. Do you understand how the council's reserves, shown in the movement in reserves statement (MIRS), will be used in the future? | |
| 7. The value of fixed assets is shown in the balance sheet. Do you understand how these assets are managed to secure the delivery of services in the future? | |
| 8. Are you satisfied that the council's commitments for funding the capital programme, shown as liabilities in the balance sheet, are affordable into the future? | |
| 9. If the council has significant borrowings have you received assurances that the council can afford the interest and is keeping up with the repayment of capital? | |
| 10. Do you understand what any provisions included in the balance sheet are for? Is there risk that further significant liabilities could arise in the future? | |
| 11. If there is a significant movement in the pension liability, do you understand what has caused the change, and the implications for the council? | |
| 12. Do you understand the reason for any large movements in this year's figures compared with those shown for last year? Are those movements in line with strategic decisions to shift resources? | |
| 13. Do you have suggestions for the s95 officer on how information in the accounts could be presented in a different or more understandable way? | |
| 14. After considering the accounts and the budget outturns you have seen how the council is funding current services. Are you satisfied that adequate plans have been made to realise efficiencies or deliver services in a different way with reduced budgets in the future? | |

DRAFT ANNUAL REPORT AND ACCOUNTS 2016/17

Report by Chief Financial Officer

AUDIT AND SCRUTINY COMMITTEE

28 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Scrutiny Committee with an opportunity to scrutinise the draft Scottish Borders Council Annual Report and Accounts for the year ended 31 March 2017 prior to its submission to the External Auditors.**
- 1.2 The draft Report and Accounts are still subject to Statutory Audit, which will commence late June. Following the Audit process, the final Report and Accounts will be submitted to Council.

2 STATUS OF REPORT

- 2.1 This report is presented to enable members to consider the draft Annual Report and Accounts (the Annual Report) attached at Appendix 1 prior to External Audit Inspection by the statutory deadline of 30 June 2017.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Scrutiny Committee:**
 - (a) **Notes the Draft Annual Report and Accounts 2016/17 for Scottish Borders Council and associated Group Accounts; and**
 - (b) **Supports its submission for review by the External Auditors, Audit Scotland.**

4 BACKGROUND

- 4.1 The Council's Annual Accounts summarises the financial transactions for the 2016/17 financial year and its balance sheet position at the year-end of 31 March 2017. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practice. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code Of Practice 2016/17 supported by International Financial Reporting Standards (IFRS).

5 ANNUAL REPORT AND ACCOUNTS 2016/17

- 5.1 The draft Annual Report and Accounts for 2016/17 (the Annual Report) is attached at Appendix 1. The Annual Report will be submitted to the External Auditors, Audit Scotland for full audit by 30 June 2017.
- 5.2 The Annual Report will also be made available for public inspection for a 3 week period commencing 1 July 2017.
- 5.3 It should be noted that the Annual Report remains draft and the conclusion of the year end work including the external audit may result in changes.
- 5.4 The Committee will receive a copy of the final report at the end of the statutory external audit process to agree prior to its publication.
- 5.5 The key issues and highlights are reflected in the management commentary and in a presentation elsewhere on the agenda.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this proposal.

6.2 Risk and Mitigations

The accounts have been prepared following the accounting codes and with due professional care and attention however; the External Audit process may highlight issues which result in amendments to the draft accounts.

6.3 Equalities

It is anticipated that there are no adverse equality implications.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of the proposals contained in this report.

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted on the report and their comments have been incorporated.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

| Name | Designation and Contact Number |
|--------------|--|
| Suzy Douglas | Financial Services Manager, 01835 824000 X5881 |

Background Papers:

Previous Minute Reference:

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

Contact us at Suzy Douglas, Financial Services Manager, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA
Tel: 01835 824000 X5881
email: sdouglas@scotborders.gov.uk

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March 2014



UNAUDITED ANNUAL ACCOUNTS

SCOTTISH BORDERS COUNCIL
FOR THE YEAR TO 31 MARCH 2017

Scottish Borders Council

Annual Accounts 2016/17

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Foreword by the Leader of the Council

Welcome to the Annual Accounts for the Scottish Borders Council for the year ended 31 March 2017. These have been produced to provide the public, Elected Members and other stakeholders with information concerning the financial management, administration and performance of the Council in the financial year 2016/17.

This is the first set of accounts I will sign as Leader of the Council and my focus is naturally on our plans for the future. In saying this the Council has achieved much in 2016/17 and I would like to acknowledge the contribution made by members of the previous Administration and Officers as highlighted in these accounts.

The management commentary on the Council accompanying the Annual Accounts outlines:

- what we do as a Council;
- what our strategy and priorities are;
- how we are organised to deliver priorities;
- our financial position for 2016/17;
- key aspects of our performance during 2016/17; and
- our plans for the future.

Highlights of 2016/17

Against a very difficult financial background, the Council has achieved a great deal during 2016/17 as follows:

- ✓ Signed a 13 year contract with CGI to establish a digital services partnership;
- ✓ Achieved £8.9m of planned Financial Plan savings on a permanent recurring basis;
- ✓ Delivered £261.6m of revenue spending within budget;
- ✓ Delivered Capital Investment of £51.5m in schools, flood protection, roads, lighting and other assets;

- ✓ Supported a successful first year operation of the new integrated Sport & Culture Trust (Live Borders).

Our Plans for 2017/18

The next year presents many opportunities for the Council including:

- the continuation of digital transformation including the realisation of efficiency and process improvement benefits following the implementation of Business World (new Enterprise Resource Planning (ERP) solution to replace Finance and HR systems) in April 2017;
- a renewed focus on improved communication and engagement with our communities;
- increased planning, collaboration, partnership working and a focus on jointly seeking innovative solutions to the challenges we face in the Borders.

The Council has committed to an ambitious Corporate Transformation Programme to deliver service improvements and savings. These will make the Council and its services sustainable within the reducing resource environment of the Public Sector.

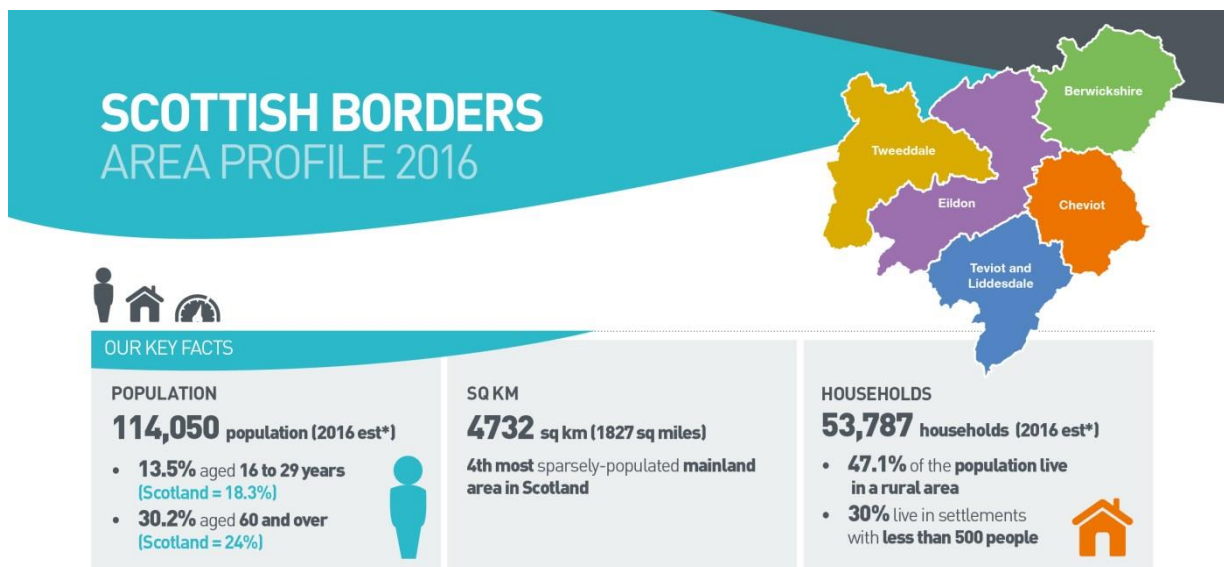
2017/18 represents the final year of the original 5 year revenue Financial Plan established in 2013/14. During this period from 2013/14 to 2016/17 the Plan has delivered cumulative savings of £26.87m alongside significant improvements in performance set out on pages 16 - 20 and I look forward to setting the Administration's new 5 year plan for 2018/19.

Councillor Shona Haslam

**Leader
Scottish Borders Council**

Management Commentary

About Scottish Borders Council



*Annual estimates are provided each year by National Records of Scotland (NRS) and are based on the Census, taking account of births, deaths and migration.

Scottish Borders Council



Management Commentary

Scottish Borders Council highlights 2016/17

CGI contract signed

A 13 year contract was signed in April 2016 establishing a digital services partnership.



Langlee Primary School new build

With a total budget of £10.6m Langlee Primary School will open for the new term in August 2017 with the demolition and landscaping work being completed by December as per the project programme.



Digital connectivity

The Digital Scotland Superfast Broadband rollout continues to enhance mobile phone coverage across Scotland. Work is continuing to enhance mobile phone coverage and a Digital Forum has been established to share connectivity issues and solutions to better co-ordinated efforts across the Scottish Borders.

Preparation for launch of Business World

Successful implementation of new integrated HR, Finance & Procurement system to facilitate efficiency savings and business process improvements.



Partnership working

Health and Social Care Integration Joint Board went live in April 2016 with work progressing to develop co-located integrated teams within the localities.

Borders Railway blueprint

A year on from the launch of the Borders Railway progress continues to further develop the inward investment opportunities and increase visitor numbers to the Scottish Borders.



Sustainable Transport

The Community Transport Hub won 'Accessibility Project of the Year' at the Scottish Transport Awards 2016.



Street Light Energy Efficiency Programme (SLEEP)

In 2016/17 6,000 lanterns, illuminated signs and bollards have been replaced with an energy efficient LED alternative leading to a reduction in energy and CO2 consumption. A total of 19,000 lights will have been replaced by the end of 2017/18.



Management Commentary

Strategic Direction

Our Vision

"We seek the best quality of life for all people in the Scottish Borders, prosperity for our businesses and good health and resilience for our communities."

Source: Corporate Plan 2013 – 2018

When working towards this vision, the Council has set standards and values:



Financial Strategy

The Financial Strategy supports the delivery of the Council's Priorities and Corporate Plan. In order to support the delivery of the Council's priorities the Financial Strategy must:-

- a) raise the funds required by the Council to meet approved service levels in the most effective manner;
- b) manage the effective deployment of those funds in line with the Council's corporate objectives and approved service plans; and
- c) provide stability in resource planning and service delivery.

The Strategy is influenced by the need to ensure that the Council's budget is targeted so that it:

- provides the most effective possible **stimulus to the wider economy**;
- **protects the environment** of the Borders;
- **protects** those who are **most vulnerable** in society;
- seeks to **focus spend on prevention** designed to reduce future demand for Council services by stopping problems arising or by addressing problems early on;
- maximises the contribution from **local collaboration** arrangements; and
- recognises the need to continue to **maximise efficiency and providing good value** for money.

Management Commentary

Risk

A Corporate Financial Risk Register was used as the basis for setting reserve levels in 2016/17 and future years. This approach seeks to quantify the risks facing the Council's finances, including over optimistic saving assumptions, unplanned employment and pension cost increases, the failure by managers to enact effective budgetary control, severe weather events, the economic downturn, potential contractual claims and unplanned emergencies in deriving an appropriate level of unallocated balances.

The level of un-allocated general fund balances is informed by an assessment of the risks facing the Council. This approach, despite being subject to an element of informed judgement, reflects the risks inherent in setting the revenue budget, the reasons reserves are held in the first place, the scale and complexity of the organisation and also provides appropriate transparency with regard to the level of balances held. The accumulated financial risk in the Risk Register is assessed to be £10.870m and the projected useable General Fund balance, at £5.638m, is sufficient to cover 52% of risks identified.

Financial Plans

The Revenue and Capital Financial Plan provides a financial representation of the Council's Priorities and Corporate Plan plans covering 5 and 10 years respectively.

2016/17 represented year 4 of the 5 year revenue Financial Plan first published in 2013/14. The plan has been amended and updated each year since 2013/14 and to date savings of £26.87m have been delivered in a planned manner. Despite the resource challenges facing the Council and the wider public services the approach to financial planning has so far delivered balanced budgets and small underspends in each year of the plan.

The Capital Financial Plan aims to ensure that capital borrowing is within prudential borrowing limits and remains sustainable in the longer term. In this regard it is important to recognise that capital investment decisions taken now have long term borrowing and revenue implications which have the potential to place an undue burden on future tax payers. The Council's Treasury Management Strategy provides the linkage between the financial strategy, capital investment plans and the borrowing strategy.

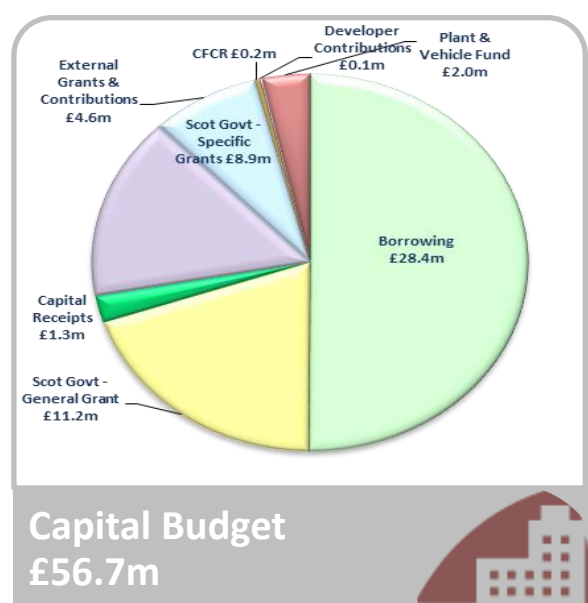
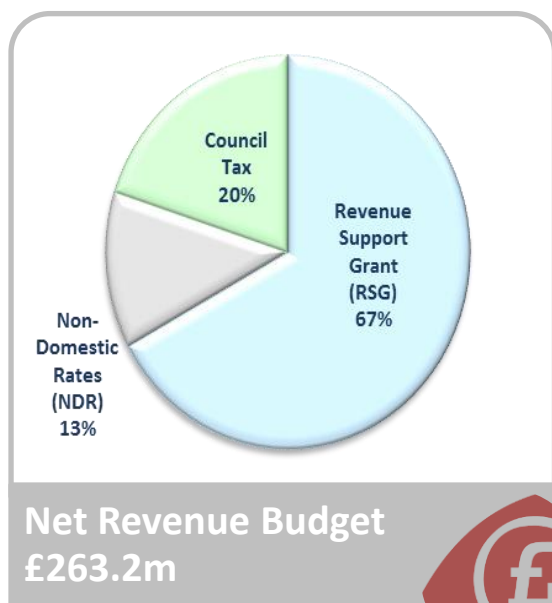
The Financial Strategy, the Financial Plans and the Treasury Management Strategy are approved by Council annually in February.

Management Commentary

How are we are doing? - Financial Performance

2016/17 Financial Resources Available

The financial resources of the Council are categorised into Revenue and Capital Expenditure. Expenditure on recurring day to day costs associated with providing the Council's services (e.g. salaries) is Revenue, whereas spending on the creation or enhancement of assets (e.g. school buildings) that have a useful value to the Council over multiple years is referred to as Capital. The financing of Revenue and Capital Expenditure, in general, comes from different sources.



Management Commentary

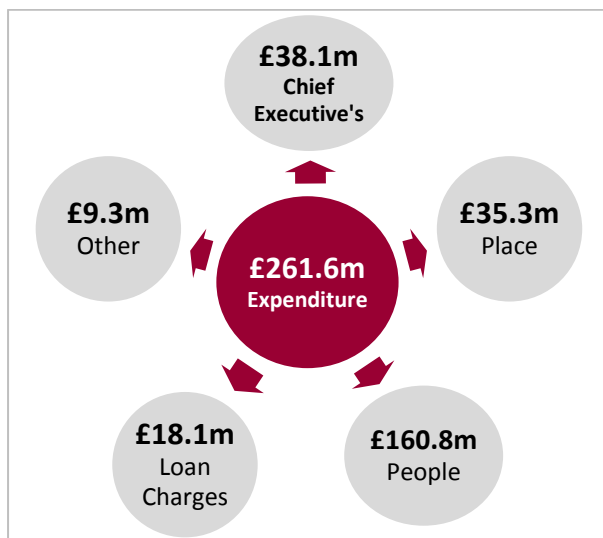
Financial Position at 31 March 2017

The approved budget was subject to a number of amendments during the year, as service pressures and savings were identified, additional grant revenue income was received and budget adjustments including Earmarked Balances were approved.

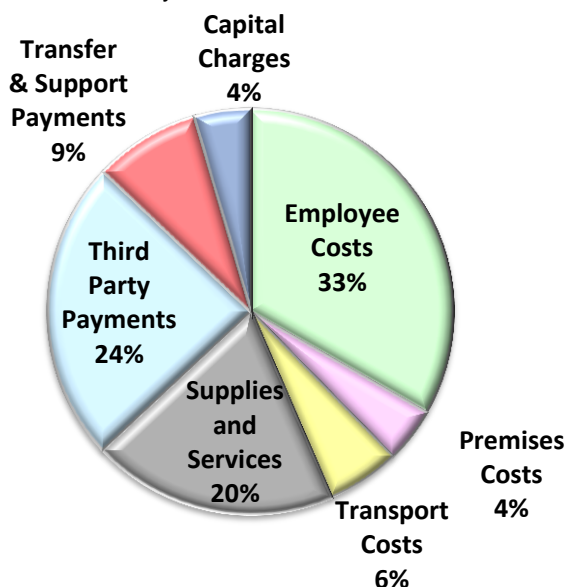
Revenue

The actual outturn for the financial year 2016/17, including funding sources, was a revenue expenditure of £261.6m representing a net underspend of £0.128m (0.05%) against the revised budget.

The following chart analyses the revenue by Council department:

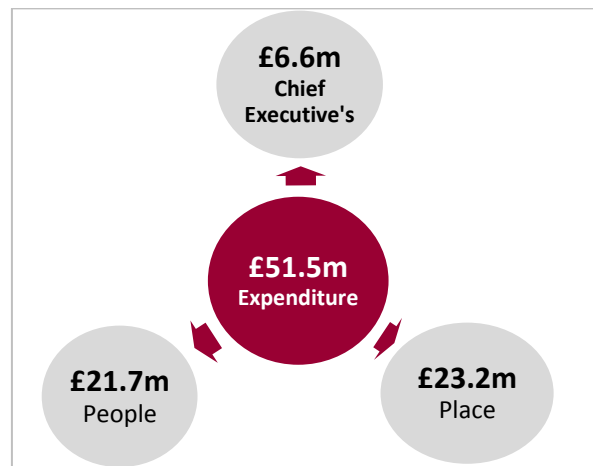


Revenue net expenditure for the year includes income of £145.4m, and gross expenditure of £407m as analysed in the chart below:



Capital

The actual outturn for the financial year 2015/16, including funding sources, was a capital expenditure of £45.0m representing a favourable variance of £3.0m (6.2%) against the revised budget, made up of £2.2m timing movement into future years and an underspend of £0.8m.



The capital programme delivered significant investment in the Scottish Borders during 2016/17 and the following table highlights some of the major projects undertaken:

Place

| | |
|----------------------------------|-------|
| • Roads & Bridge Maintenance | £8.0m |
| • Selkirk Flood Scheme | £6.4m |
| • Other Flood Protection Schemes | £1.3m |
| • Waste Infrastructure | £0.7m |
| • Land & Property Infrastructure | £4.3m |
| • Plant & Vehicle | £2.5m |

People

| | |
|-----------------------------------|-------|
| • Duns Primary School | £6.8m |
| • Langlee Primary School | £6.9m |
| • Broomlands Primary School | £2.5m |
| • Other School Estate | £3.4m |
| • Sports & Culture Infrastructure | £0.7m |
| • Social Care Projects | £1.4m |

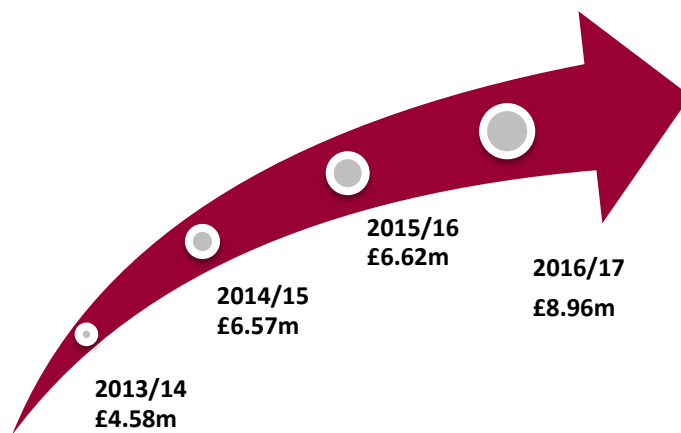
Chief Executive's

| | |
|----------------------|-------|
| • Synthetic Pitches | £1.2m |
| • ICT Transformation | £4.5m |
| • Other projects | £0.9m |

Management Commentary

Delivery of Targeted Savings

Overall, savings of £12.36m were delivered during 2016/17 in order to balance the costs of delivering services and the available resources. The regular Budget Monitoring reports to the Executive Committee tracked the delivery of these savings against the Financial Plan proposals. Of the £12.36m delivered in 2016/17, £8.96m (73%) were delivered permanently (£8.775m (71%) as intended within the Financial Plan and £0.188m (2%) by alternative means). As shown below there is a demonstrable sustained improvement overall in the permanent delivery of agreed savings by the Council over the past 4 years. It is acknowledged that there will be a requirement for ongoing effort to maintain and further improve this delivery performance in 2017/18 and beyond.



Financial Plan Savings delivered permanently

Making best use of our People

- Review of professional and support services £2.1m
- Redesign of Children & Young People's services £2.4m
- Employee Benefits £0.8m

Working with our Partners

- Alternative models of service delivery £0.7m
- Review of commissioning arrangements £0.3m

Looking after the Borders

- Savings on Property Maintenance £0.1m
- Integrated Waste Management Plan £0.1m

Business Process Transformation

- Redesign of Adult Services £1.0m
- Procurement savings £0.12m
- SLEEP project savings £0.18m

Maximising Resources

- Income from long term empty properties £0.5m
- 2nd homes Council tax income £0.14m
- Fees & Charges £0.2m

Management Commentary

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement on page 37 shows the accounting cost of providing services rather than the cost of services which requires to be funded by taxation.

Net Cost of Services

The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the management outturn reports in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2016/17 (the Code).

These accounting adjustments include depreciation, Loans Fund principal repayments and accrued holiday leave not taken by 31 March 2017. This results in the (statutory accounting) adjusted net cost of services of £263.8m compared with the reported departmental net cost of services of £261.6m. Note 5, page 55 provides additional analysis of the movement between these figures.

Further statutory adjustments are then subsequently made in the comprehensive income and expenditure account shown on page 38 to include net gains/losses on disposal and revaluation of assets, interest payable and adjustments for pension costs. These accounting adjustments result in an overall Deficit on the Provision of Council Services for the year of £5.3m.

Other Comprehensive Income and Expenditure

Movement in the Comprehensive Income and Expenditure statement between 2015/16 and 2016/17 of £10.1m can be attributed to a one-off payment during 2016/17 to Transport Scotland to buy out a long term contractual liability along with a reduction in the level of Earmarked Balances between 2015/16 and 2016/17. The level of Earmarked Balances is expected to vary year to year depending on the timing of programmes of work.

Following the Actuarial Loss on the Pension Net Assets/Liabilities (£69.5m) the overall Net Comprehensive Income is a deficit of £69.1m (versus surplus of £48.5m in 2015/16). This net position is as a result of the underlying assumptions used in the actuarial valuation. The actuarial valuation for the accounts are calculated in accordance with IAS19 and uses a number of high level assumptions including pension increases, salary increase and discount rate. These assumptions are reviewed and updated on an annual basis and are only used for IAS19 purposes and are not relevant to calculations undertaken for funding purposes. Information provided by the Actuary in preparation for the 2017 Triennial valuation indicates the fund remains over 100% funded. The net assets under management by the Scottish Borders Pension Fund grew by 21.5% during 2016/17. The Annual Report and Accounts on the Pension Fund provide a full narrative on its performance and can be found at www.scotborders.gov.uk/pensions

Management Commentary

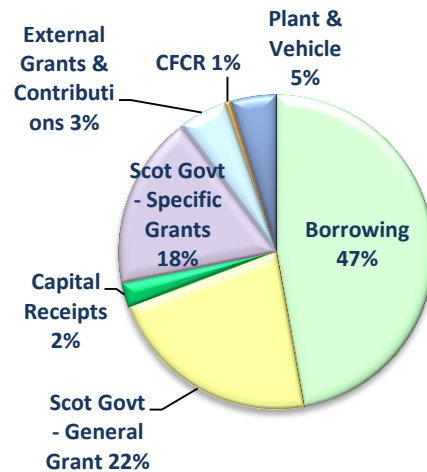
Capital Financing Requirement

In addition to the capital expenditure on fixed and intangible assets of £51.5m the Council utilised the Scottish Government's Consent to Borrow provision to provide the funding for capital expenditure on new affordable housing through the Council National Housing Trust Initiative via Bridge Homes LLP (£2.2m on 22 properties).

The chart shows the profile of the sources of the total £51.5m capital financing requirement for 2016/17.

The chart indicates that 47% (£24.3m) of the capital financing requirement was provided by the Council's capital prudential borrowing.

Actual Capital Financing 2016/17



Treasury and Debt Management

The Council publishes an annual Treasury Management Strategy to coincide with the approval of the financial plans in February. This strategy links the Council's capital investment plans to its treasury management activities including borrowing and investment strategies.

Cash Management

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A major aspect of the treasury management operations during the year was to ensure that the cash flow was adequately planned, with cash being available when needed. Any surplus monies were invested in counterparties or instruments appropriate for the Council's low risk appetite and which meet the criteria set with the Investment Strategy.

Debt Management

The Council continued to maintain an under-borrowed position, this means that the capital financing need was not fully funded by external loan debt and instead internal cash supporting the Council's reserves, balances and cash flow has continued to be used as a temporary tactical measure. This strategy remains both prudent and cost effective in an environment where investment returns are low and counterparty risk is high.

External Debt

The Council's outstanding external debt as at 31 March 2017 was £197m. Additional long term borrowing was undertaken during the year amounting to £12m. Short term borrowing for cash flow purposes was also undertaken with £9m outstanding at the year end. The average rate of interest paid on outstanding external debt was 6.2%.

Management Commentary

Reserves

The Council maintains two types of reserves – usable and unusable – and the movement in these reserves are set out in the Movement in Reserves Statement (page 36).

Unusable Reserves – result from accounting adjustments and cannot be spent

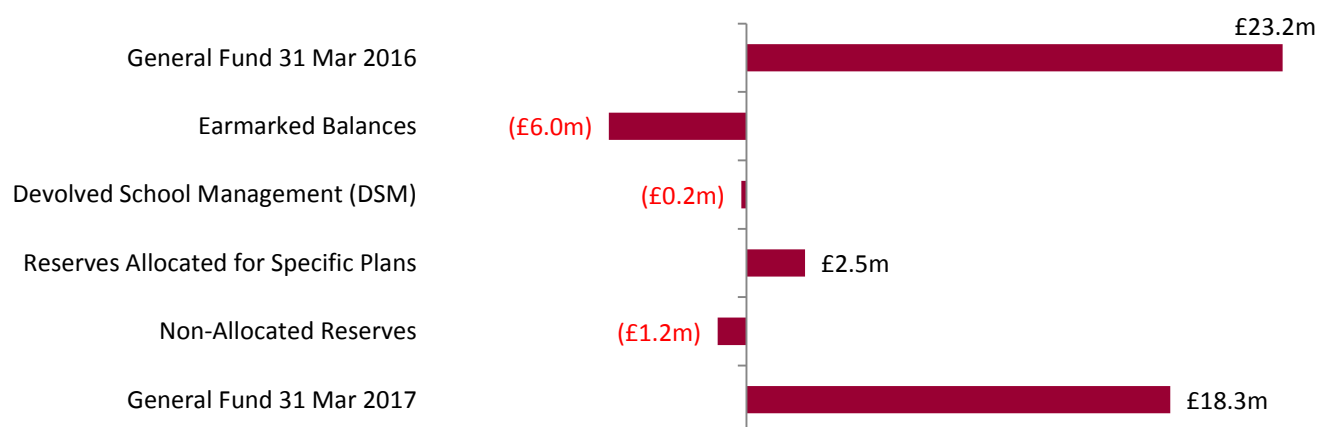
Usable Reserves – result from the Council’s activities and can be spent in the future

Note 31, page 85 provides additional information on the status of the usable and unusable reserves held by the Council.

The Council’s principal usable reserve is the General Fund Reserve and is maintained for three main purposes:

- A working balance to help cushion the impact of uneven cash flows;
- A contingency to cushion the impact of unexpected events or emergencies; and
- Earmarked balances to meet known or predicted liabilities.

As at 31 March 2017 the total General Fund Reserve Balance is £18.1m (£23.2m at 31 March 2016) a decrease of £5.1m during the year. The decrease, as can be seen from the chart below, can mainly be attributed to the reduction in Earmarked Balances the value of which will vary from year to year.



Within the detail of the movements there are the following key changes during 2016/17:

Non-Allocated Reserves

| | |
|--|-----------|
| Planned drawdown to support IT transformation | (£1.284m) |
| Planned drawdown to support the 2016/17 Financial Plan | (£0.160m) |
| Increase from 2016/17 year end outturn and technical adjustments | £0.204m |

Reserves Allocated for Specific Plans - net effect of:

| | |
|--|-----------|
| Increase to IT transformation reserve | £2.000m |
| Increase to adverse weather reserve | £0.200m |
| Financial Plan adjustments | £1.181m |
| Drawdown from Allocated balances for specific purposes | (£0.845m) |

Management Commentary

Scottish Borders Council Group Accounts

Group Accounts have been prepared for the year ending 31 March 2017 with a comparator year ending 31 March 2016. The Group Accounts for 2016/17 can be found from page 96. The establishment of a new integrated Sport & Culture Trust (Live Borders) in April 2016 has resulted in the previous Associate Borders Sport & Leisure Trust (BSLT) being removed from the Group and Live Borders being included as a Subsidiary. The Scottish Borders Health and Social Care Partnership has also been consolidated into the Group Accounts for the first time this year. The Integrated Joint Board with NHS Borders was established on 6th February 2016, however there were no material transactions during 2015/16 which would have required consolidation into the 2015/16 Group Accounts. The Group comprises of the following:



Going concern

The Council's Balance Sheet is shown on pages 39 - 40. The value of the net liabilities of £2.236m at 31st March 2017 exceeds the value of distributable reserves held by the Council. This is, however, only a snap shot view which is fundamentally affected by the pension fund liability (£216m) calculated at this point in time. The actuarial valuation, which takes a longer term view of liabilities as they are more likely to actually fall due in future years, will appropriately apply future revenue streams from a combination of investments, employer contributions and employee contributions to meet the financing of these liabilities. It is therefore considered appropriate to continue to adopt a 'going concern' basis for the preparation of these financial statements.

Management Commentary

How are we doing?

Our Priorities

Our Corporate Plan presents our 8 priorities within the Scottish Borders over the five year period 2013 - 2018:



www.scotborders.gov.uk/corporateplan

www.scotborders.gov.uk/businessplans

www.scotborders.gov.uk/performance

Performance against our corporate priorities

The Council reports and presents its performance information relating to each corporate priority on a monthly basis to the Corporate Management Team, and on a quarterly basis to the Executive Committee of the Council. Below is a summary of the key performance information for 2016/17 and the priorities that we need to focus on moving forward to ensure that our priorities continue to be addressed.

01

ENCOURAGE SUSTAINABLE ECONOMIC GROWTH HOW ARE WE DOING?



Heritage Hub in Hawick new base for Business Gateway.

Business Gateway

After operating successfully out of Ettrick Riverside in Selkirk for 16 years, the Business Gateway team moved to new premises at Tower Mill in Hawick in April. Not only has this enabled a private sector business to expand its office space in Selkirk, it helps support the aspirations of the Hawick Action Plan, developed through a partnership between Scottish Borders Council, Scottish Enterprise, Scottish Government, and the local business community, with Business Gateway now providing its services in a high street setting.

April 2016 - March 2017:

| | | | |
|---|---|---|--|
| EMPLOYMENT RATE* 74% of people aged between 16-64 are now in employment | CLAIMANT COUNT (16-64YR OLDS) 1.8% of working age people are now out of work and claiming benefits | CLAIMANT COUNT (18-24YR OLDS) 3.7% of young people are now out of work and claiming benefits | PLANNING APPLICATIONS 1324 received during 2016/17 |
| Scotland 72.9% SB last year 76.2% | Scotland 2.4% SB last year 1.8% | Scotland 3.6% SB last year 3.9% | SB last year 1,286 |

• railway • connectivity • investment • skills • housing • railway • connectivity • investment • skills •

Our performance during 2016/17

| | | | |
|---|--|---|--|
| BUSINESS GATEWAY 231 new businesses were created with our help <i>(down from 247 in 15/16)</i> | BUSINESS LOANS AND GRANTS £71.2k was approved in loans over 4 successful applications to the Scottish Borders Business Loan Fund <i>(down from 162K in 15/16)</i> | AFFORDABLE HOMES 131 affordable homes were delivered (Over 5 years 598 affordable homes have been delivered against a target of 500) <i>(above target of 100)</i> | AVERAGE TIME TO DETERMINE PLANNING APPLICATIONS* By end of Q3 2016/17 average times were: 0.0 no major applications received <i>(SBC average 15/16 = 27.6)</i> |
| 1085 businesses were supported in 2016/17 <i>(up from 1042 in 15/16)</i> | £129.4k was approved in grants over 39 successful applications to the Scottish Borders Business Fund <i>(up from £108K in 15/16)</i> | Invoices paid within 30 days 91% on average were paid within 30 days in 16/17 <i>(down from 92% in 15/16)</i> | 6.9 weeks for non-householders <i>(SBC last year 17.4)</i> 7.4 weeks for householders <i>(SBC last year 6.7)</i> |



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 20th June 2017.
*Performance indicators with a quarter lag in data.

02

IMPROVE ATTAINMENT AND ACHIEVEMENT LEVELS FOR ALL OUR CHILDREN AND YOUNG PEOPLE, WITH A FOCUS ON INCLUSION HOW ARE WE DOING?

2016 Annual Participation Measure:

| | | | | |
|---|---|--|---|-----------------------------------|
| SCHOOL LEAVERS POSITIVE DESTINATION 2015/16 94.2% of the 1166 school leavers went into a positive destination | 4,867 young people age 16-19 year in the Scottish Borders (included in this measure). <i>New measure this year</i> | 91.4% are participating in Education, Employment or Training • 74.6% in Education • 15.0% in Employment • 1.8% in Training & Personal Development | 2.7% not participating in Education, Employment or Training • 1.7% Unemployed Seeking • 1.8% Unemployed Not Seeking | 5.9% Unconfirmed Status |
| Scotland 93.3% | Scotland 90.4% | Scotland 4.0% | Scotland 5.6% | |

Participation Measure

Recently Skills Development Scotland (SDS) has worked with the Scottish Government to develop the Participation Measure. The purpose of the Participation Measure is to identify what young people 16-19 are doing, to inform policy, planning and service delivery and determine the impact of the Scottish Government's Opportunities for All commitment.

The Participation Measure covers all those aged 16 to 19, not just the school leavers.

• inclusion • attainment • achievement • leadership • inclusion • attainment • achievement • leadership •

Our performance

| | | | |
|---|---|--|--|
| S5 PUPIL ATTAINMENT 2015/16 38.2% achieved 3+ SCQF Level 6 (Higher) or above <i>(up from 28.8% in 2010/11)</i> | S6 PUPIL ATTAINMENT 2015/16 45.9% achieved 3+ SCQF Level 6 (Higher) or above <i>(up from 38.1% in 2010/11)</i> | ATTENDANCE (TO DATE, DURING 2016/17 SCHOOL YEAR) 95.3% pupils attended their primary school <i>Scottish average for 16/17 = 95.3%</i> | PRIMARY SCHOOL PUPILS EXCLUDED 50% reduction in the number of primary school exclusions <i>(Since 2013/14)</i> |
| 16.6% achieved 5+ SCQF Level 6 (Higher) or above <i>(up from 11.7% in 2010/11)</i> | 34.3% achieved 5+ SCQF Level 6 (Higher) or above <i>(up from 25.5% in 2010/11)</i> | 91.9% pupils attended their secondary school <i>Scottish average for 16/17 = 91.9%</i> | SECONDARY SCHOOL PUPILS EXCLUDED 39.8% reduction in the number of secondary school exclusions <i>(Since 2013/14)</i> |



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 20th June 2017.
*Performance indicators with a quarter lag in data.

03

PROVIDE HIGH QUALITY SUPPORT, CARE AND PROTECTION TO CHILDREN, YOUNG PEOPLE, ADULTS, FAMILIES, AND OLDER PEOPLE HOW ARE WE DOING?

April 2016 - March 2017:

| SELF-DIRECTED SUPPORT APPROACH | DOMESTIC ABUSE | CRIMES AND OFFENCES | WELFARE BENEFITS SERVICE |
|---|--|---|---|
| 59% of adults are using the Self-Directed Support approach (2016/17) | 871 reported incidents of domestic abuse | 2,916 group 1-5 crimes and offences were recorded | 2,949 people contacted our Welfare Benefits Service receiving over £8.4m in additional benefits |
| SB last year 20.6% | SB 15/16 904 | SB last year 3,189 | SB last year 2,754 |

Supporting Victims of Domestic Abuse

The Pathway 2 Project (2017-20) continues to provide specialist domestic abuse support to victims and their families. Funding has been secured from the Big Lottery, Scottish Government (pending) and partner agencies such as SBC, Police Scotland, NHS Borders, Borders Housing Alliance and Children1st. The funding has enabled the development of two new resources – a "Court Advocate" and "Community Engagement Officer", identified as gaps in the current response and will provide vital support for both victims and communities.

support • independence • joined-up care • health • support • independence • joined-up care • health

Our performance during Q3 2016/17

| CARE AT HOME | LOOKED AFTER CHILDREN | CHILD PROTECTION |
|---|---|--|
| 76% of adults (aged 65yrs+) received care at home compared to a care home/residential setting (2016/17) (above our target of 70%) | 251 looked after and accommodated children (at end 2016/17) (up from 215 at end 2015/16) | 87% of looked after children (across all ages) were living within a community family-based placement (at end 2016/17) (up from 85% at end 2015/16) |
| 100% of new service users received a service within 6 weeks of assessment (2016/17) (up from 95% in 2015/16) | 1.0% Scottish Borders 1.5% Scotland 1.1% Family Group children looked after on 31 July 2016 as a percentage of the 0-17yr old population (up from 0.9% at end of July 2015) | 53 inter-agency discussions (Initial Referrals Discussions) concerning the safety of a child held, on average, a month (Apr'16-Mar'17) (up from 40 from Apr'15-Mar'16) |
| | 76% of looked after children aged 12yrs+ were living within a community family-based placement (at end 2016/17) (up from 72% at end 2015/16) | 54 children on the Child Protection Register (2016/17) (up from 28 in 2015/16) |



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 20th June 2017. *Performance indicators with a quarter lag in data.

04

BUILD THE CAPACITY AND RESILIENCE OF OUR COMMUNITIES AND VOLUNTARY SECTOR HOW ARE WE DOING?

April 2016 - March 2017:

| TWEEDDALE | | EILDON | | CHEVIOT | |
|---|---|---|---|---|---|
| The following funding has been awarded in 16/17 | | The following funding has been awarded in 16/17 | | The following funding has been awarded in 16/17 | |
| £141.5k National Lottery | £33.6k Quality of Life Fund | £142.5k National Lottery | £19.1k Quality of Life Fund | £538.3k National Lottery | £21.4k Quality of Life Fund |
| £37.4k Community Grants Scheme | £67.2k Neighbourhood Small Schemes Fund | £40.9k Community Grants Scheme | £72.0k Neighbourhood Small Schemes Fund | £20.9k Community Grants Scheme | £51.2k Neighbourhood Small Schemes Fund |
| £25.0k Scottish Landfill | £304.6k Total Funding | £33.2k Scottish Landfill | £307.6k Total Funding | £30.0k Scottish Landfill | £661.7k Total Funding |



Participatory Budgeting - Burnfoot Bids Together

Burnfoot Community Futures (BCF) received £39k from the Scottish Government's Community Choices Fund last year to undertake a Participatory Budget project. The BCF Board worked with SBC, NHS Healthy Living Network, Burnfoot School and the local Early Years Centre.

To deliver the project, a volunteer-led Community Steering Group was formed, aiming to have funds dispersed to the community by April 2017. An overwhelming response was received with over 40 applications. A vetting process was carried out by the group, resulting in 26 applications being shortlisted and considered by the community at a voting event held on Sunday, 16 March 2017.

The Steering Group organised the voting event, which included a live music band, children's activities, and free refreshments. At the event 307 votes were received and 13 projects were successful.

These included:

- Burnfoot Rugby Team
- Equipment & uniforms for Boys Brigade, Girls Brigade and Brownies
- Cinema for all
- Funky Monkeys Hub Adventure
- Burnfoot Community School Playground Project

- Fit for all
- Bikeability
- Boxing Breakfast
- Driving Theory Tuition
- Senior Activity Club
- Firework display
- Special Fun Together
- Police Scotland - Friday evening activities

This is great example of community led capacity building, engagement and development within Scottish Borders.



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 20 June 2017. *Performance indicators with a quarter lag in data.

04

BUILD THE CAPACITY AND RESILIENCE OF OUR COMMUNITIES AND VOLUNTARY SECTOR HOW ARE WE DOING?

April 2016 – March 2017:

| BERWICKSHIRE | | TEVIOT & LIDDESDALE | | BORDERSWIDE PROJECTS | |
|---|---|--|---|--|--|
| The following funding has been awarded in 16/17 | | | | | |
| £543.5k National Lottery | £11.2k Quality of Life Fund | £361.4k National Lottery | £19.6k Quality of Life Fund | £1,067.6k National Lottery | £0.0k Quality of Life Fund |
| £22.1k Community Grants Scheme | £48.2k Neighbourhood Small Schemes Fund | £23.2k Community Grants Scheme | £45.1k Neighbourhood Small Schemes Fund | £11.8k Community Grants Scheme | £0.0k Neighbourhood Small Schemes Fund |
| £53.4k Scottish Landfill | £678.3k Total Funding | £54.0k Scottish Landfill | £503.3k Total Funding | £0.0k Scottish Landfill | £1,079.4k Total Funding |



Building community capacity and resilience: Town Centres

Town centres are at the heart of our communities and help make the Scottish Borders, and our towns, distinctive and special. They are a central component of a successful local economy, offering a base for small business and jobs, and community life.

A rolling three-year Town Centre Regeneration Action Plan has been developed, which targets resources, actions and key projects in a selection of priority towns. These include:

Jedburgh

- £1.3m Conservation Area Regeneration Scheme (CARS) programme
- Town centre marketing support

Hawick

- Inward investment marketing pilot
- Development of modern business space in the town centre
- Development of a Townscape Heritage bid and Conservation Area Regeneration Scheme (CARS) bid

Eyemouth

- Town centre regeneration programme, including progress and implement Eyemouth Harbour Road Masterplan
- Town centre review with local community and partners

Galashiels

- Inward investment marketing pilot
- Burgh Yard development
- Borders Railway Ambassadors project
- Support Galashiels Business Improvement District Scotland (BIDS) proposal
- Masterplanning for town centre

Selkirk

- Deliver streetscape works
- Progress Sir Walter Scott Courthouse project
- Support Selkirk BIDS proposals



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 20th June 2017. *Performance indicators with a quarter lag in data.

05

MAINTAIN AND IMPROVE OUR HIGH QUALITY ENVIRONMENT HOW ARE WE DOING?

January 2016 – December 2016:

| ROAD SAFETY | ROAD SAFETY | HOUSEHOLD WASTE | HOUSEHOLD WASTE | HOUSEHOLD WASTE |
|--|---|---|---|--|
| 12 people were killed on our roads in 2016 | 65 people were seriously injured on our roads in 2016 | 39.03% of our household waste, on average, was recycled over the last 12 months | 60.71% of our household waste was sent to landfill, on average, over the last 12 months | 0.26% of our household waste required 'other' treatment, on average, over the last 12 months |
| SB last year: 6 | SB last year: 62 | SB last year: 36.89% | SB last year: 62.23% | SB last year: 0.27% |

Our performance during 2016/2017

ROAD CONDITION

46.6%
of the 3,000 km of roads in the Scottish Borders should be considered for maintenance

(up from 46.3% in 15/16)

COMMUNITY RECYCLING CENTRES

56.23%
of waste was recycled at SBC Community Recycling Centres, on average, over the last 12 months

(up from 51.06% during 2015/16)

Case Study Drive-wise Borders 'Over 65s'

The Drive-wise Borders project concentrates on the 'at risk' groups, according to road traffic accident statistics in the local Borders region.

The over 65s part of the project has seen a welcomed concentration of effort to some of the most vulnerable road users in our communities, updating and cementing their theoretical knowledge. The sheer enthusiasm and the level of engagement shown by attendees, with an uptake rate of Refresher Dives being around 96%, has been very encouraging. Reasons for uptake include widowed women who have lost confidence, and those with health issues returning to driving. Specific issues around day-to-day driving have emerged and topics affecting the older drivers have been freely discussed in a safe and open environment.



The plan to roll out the presentations across the Borders will allow as many members of our rural communities as possible to benefit. During the sessions, the attendees are encouraged to take part in a 'Fun Theory test' and are given a free 'Highway Code' and local information book, which have been well received.



For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
Correct at time of publication: 20th June 2017. *Performance indicators with a quarter lag in data.

06

DEVELOP OUR WORKFORCE HOW ARE WE DOING?

SBC Modern Apprentices 2016/17



Winning photograph of Siobhan Murphy stating "No job too small", showing her daily working life.



Siobhan receiving her Apple watch prize alongside Gordon Mackie (from CGI) and David Robertson (SBC).

Case Study Work Opportunities

To promote "Scottish Apprenticeship Week", SBC's IT partner CGI ran a photo competition in conjunction with SBC, open to all our Modern Apprentices (MAs). Our MAs were asked to send in a photo of their daily working life that encapsulated their apprenticeship and showed that apprenticeships are changing. The winner was Siobhan Murphy from the Environment and Infrastructure team and she won an Apple watch.

• benefits • communication • staff development • flexibility • benefits • communication • staff development •

Our performance during 2016/2017

SBC ABSENCE RATE*

3.8%
of working days were lost, on average, due to absence as of December 2016

(down from 4.1% in Dec 15/16)

WORK OPPORTUNITIES

50
work opportunities are being supported by SBC through our "Work Opportunities Policy" as of March 2017

(down from 56 in March 15/16)



APPRENTICESHIPS

36
apprentices are employed with SBC as of March 2017

(37 in March 15/16)

APPRENTICESHIPS

67% male 33% female
across various departments such as Human Resources, Engineering, Finance

(73% male in March 15/16)

(27% female in March 15/16)



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Correct at time of publication: 20th June 2017. *Performance indicators with a quarter lag in data.

07

DEVELOP OUR ASSETS AND RESOURCES HOW ARE WE DOING?

April 2016 - March 2017:

CAPITAL RECEIPTS

£1,437,000
was received from selling our fixed assets such as buildings in 2016/17

SB 2015/16 £847,711

OCCUPANCY RATES

88.8%
of industrial and commercial properties owned by the council were occupied as of March 2017

SB 2015/16 93%

Locality Property Plans

High-level property plans are being developed for each of the five localities (Berwickshire, Cheviot, Eildon, Teviot & Liddesdale and Tweeddale). These will form part of the wider "Locality Plans" and look at how public sector investment can be better focussed to meet community needs. The initiative seeks to ensure that diminishing resources are used to best effect and will help address resource challenges.

Eymouth Hippodrome location of engagement event.

In February and March this year, a series of pre-consultation events were held across the Borders to hear first-hand about local issues, initiatives and priorities. Feedback is being used to inform first drafts of the Locality Property Plans and further consultation will be held before publication in October. The plans support the "Asset Transfer" section of the Community Empowerment Act and the Council's approach to achieving savings.



• buildings • energy efficiency • capital investment • buildings • energy efficiency • capital investment • buildings •

Our performance during 2016/17

COUNCIL PROPERTIES

19
properties are no longer required

7
properties are advertised for sale

8
properties are currently under offer

http://www.scotborders.gov.uk/sale_lets

COUNCIL TAX

96.63%
of Council Tax due was collected in 2016/17

(up from 96.5% in 15/16)

CAPITAL PROJECTS

99
number of projects ongoing across the council of which

93 are on target

4 are slightly behind target
2 is not on target

ENERGY CONSUMPTION* 2016/17

we used **8,914,731**
kilowatt hours of electricity at a cost of **£0.984m**

(down from 9,439,496 in 15/16)

(down from £1.015m in 15/16)

ENERGY CONSUMPTION* 2016/17

we used **11,989,056**
kilowatt hours of gas at a cost of **£0.266m**

(down from 12,856,850 in 15/16)

(down from £0.365m in 15/16)

*The energy consumption figures are based on 26 sites across the council which account for approximately 50% of the energy used across the council, and is therefore representative of the energy use across the council as a whole.



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Correct at time of publication: 20th June 2017. *Performance indicators with a quarter lag in data.

08

ENSURE EXCELLENT, ADAPTABLE, COLLABORATIVE AND ACCESSIBLE PUBLIC SERVICES HOW ARE WE DOING?

April 2016 - March 2017:

| | | | |
|--|---|--|--|
| CUSTOMER INTERACTIONS 172,078 Interactions with the public were handled by our Customer Service staff via email, face to face contact, phonecalls and mail in 2016/17 SBC 2015/16 175,333 | FREEDOM OF INFORMATION REQUESTS (FOI) 1246 requests for information under the Freedom of Information Act were received in 2016/17 SBC 2015/16 1147 | COMPLAINTS 563 customer complaints were handled by SBC in 2016/17 SBC 2015/16 564 | SOCIAL WORK SERVICE COMPLAINTS 89 complaints received regarding the Social Work service in 2016/17 SBC 2015/16 71 |
|--|---|--|--|

Compliments during 2016/17

SBC receives many unsolicited compliments covering a range of services:

"Thank you for the speedy response to the broken drain cover."

"Many thanks for your welcome initiative; your actions have restored my faith in SBC. Looking after an elderly parent is not easy and I greatly appreciate your willingness to quickly investigate and resolve this straightforward issue."

"... was very professional and drafted a letter explaining everything succinctly and to the point. He listened intently to [the customer]."

"The service at the Eshiels Site has improved radically over the last few months."

"Please accept and pass on my thanks for the thorough and very professional job which was completed a few days after my request. Great Service!"

"I'm very happy with the new Food waste collection service - it means my kitchen bin is odour free and can be put out less often as the decaying food is kept separate."

ICT • customer focus • online services • partnership • ICT • customer focus • online services • partnership

Our performance during 2016/17

| | | | |
|---|--|--|--|
| CUSTOMER INTERACTIONS 62,470 face to face interactions were logged by our Contact Centres during 2016/17 (down from 67,949 in 2015/16) | FREEDOM OF INFORMATION 92.5% of FOI requests were completed on time in 2016/17 (up from 88% in 2015/16) | COMPLAINTS Our average response times for complaints for 2016/17 were as follows: Stage 1 complaints 3.9 days (down from 4 in 2015/16) Stage 2 complaints 17.5 days (up from 17.2 in 2015/16) Escalated complaints 17.0 days (up from 16.7 in 2015/16) | In 2016/17 we closed: 84.3% of complaints at stage 1 within 5 working days (down from 85.2% in 2015/16) 84% of complaints at stage 2 within 20 working days (up from 77.5% in 2015/16) 69.2% of escalated complaints within 20 working days (down from 83.3% in 2015/16) |
|---|--|--|--|



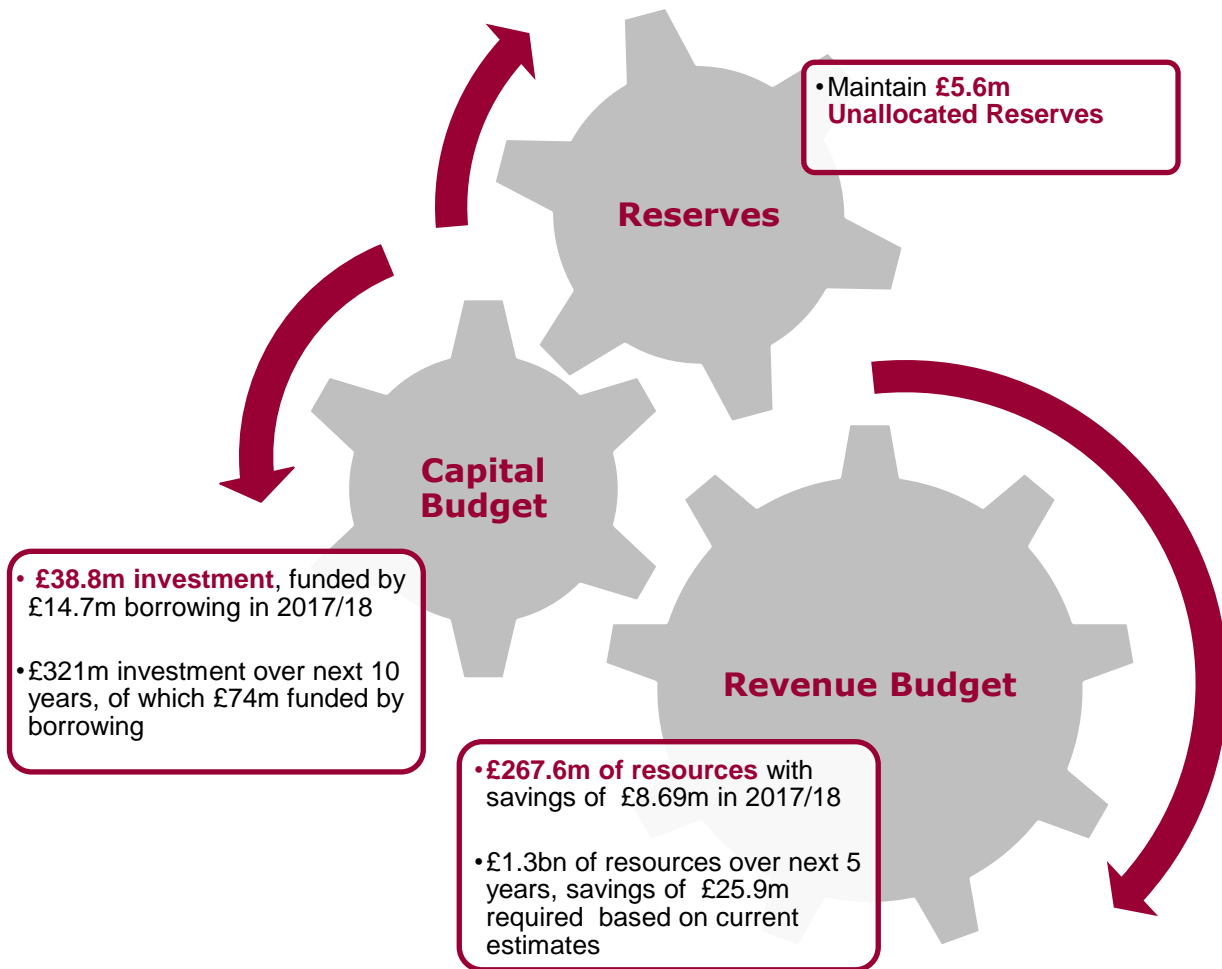
For more on performance visit www.scotborders.gov.uk/performance or email performance@scotborders.gov.uk
 Correct at time of publication: 20th June 2017. *Performance indicators with a quarter lag in data.

Management Commentary

Our Plans for the Future

The Council has an ambitious Corporate Transformation Programme, Capital Investment Programme and Departmental Business Plans which will be delivered over the coming years within an environment of ever reducing financial resources and increasing public and government expectations.

Future Financial Plans - 2017/18

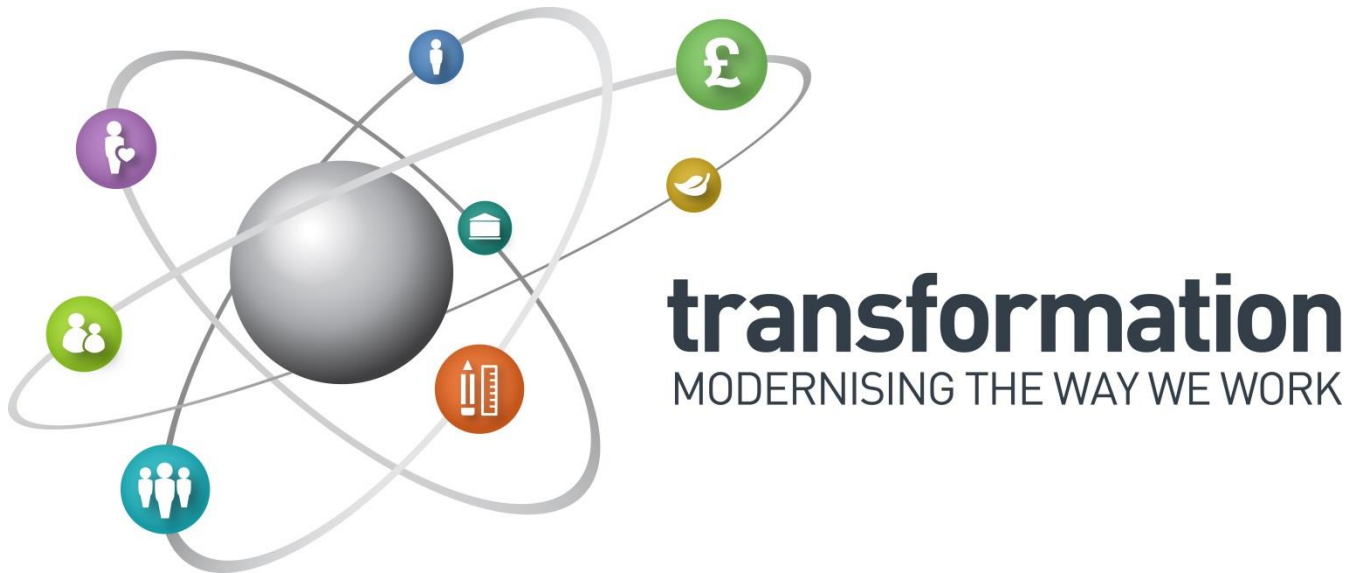


The Revenue and Capital Financial Plans from 2017/18 onwards can be found on the Councils webpages at www.scotborders.gov.uk

Management Commentary

Corporate Transformation Programme

Scottish Borders Council has in place an ambitious Corporate Transformation programme of work which provides a framework for the development and delivery of activities and projects to achieve a sustainable financial position over the next 5 years and beyond and underpins the delivery of Elected Member, Corporate and Partnership priorities.



For more information on the programme visit: www.scotborders.gov.uk/transformation

Conclusion

The operating environment for the Council continues to be very challenging with financial and economic influences such as increasing demands on services, reducing Scottish Government funding, low interest rates and cost pressures from pay and price inflation all affecting the Council's finances. The Council, despite these challenges, remains financially sound and well placed to serve the people of the Scottish Borders in the future.

Management Commentary

Statement of Responsibilities

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the Council has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Council, that officer is the Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Council's Audit and Scrutiny Committee at its meeting on 28th June 2017.

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with legislation.
- Complied with the local authority Accounting Code (in so far as it is compatible with legislation)

The Chief Financial Officer has also:

- Kept adequate accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Council (and its group) at the reporting date and the transactions of the local authority (and its group) for the year ended 31 March 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

Annual Governance Statement 2016/17

Introduction

Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of Scottish Borders Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

A new 'CIPFA/SOLACE Framework' was published in Spring 2016 to ensure it remains fit for purpose, which applies to Annual Governance Statements prepared for the financial year 2016/17 onwards, and associated guidance for Scottish Authorities was published in November 2016. The overall aim of the Framework is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The revised 'Framework' defines the seven (previously six in 2007) core principles of good governance, namely:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Revisions were required to the Council's Local Code of Corporate Governance to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the new CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) and the supporting guidance notes for Scottish authorities. This will be presented to Council in due course for approval and a copy of the Local Code of Corporate Governance will be published on the Council's website.

This Annual Governance Statement explains how the Council has complied with the terms of the new CIPFA/SOLACE Framework (2016) for the year ended 31 March 2017. The statement also covers relevant governance issues as they affect those entities included as part of the Council's Group Accounts.

The Governance Framework

The Council's Local Code of Corporate Governance sets out the framework and key principles, which require to be complied with, to demonstrate effective governance. The key elements of the Council's governance arrangements as set out in the Local Code include:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in procedural standing orders, scheme of administration, scheme of delegation, and financial regulations which are regularly reviewed and revised where appropriate.

Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.

Annual Governance Statement 2016/17

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. An annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.

The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

Professional advice on the discharge of statutory social work duties is provided to the Council by the Chief Social Work Officer (CSWO). The CSWO promotes values and standards of professional practice and acts as the 'agency decision maker' taking final decisions on a range of social work matters including adoption, secure accommodation, guardianship, etc.

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.

Unless confidential, decisions made by Council, the Executive Committee or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users. The Scottish Borders CPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council has a Single Outcome Agreement (SOA) in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Council's Corporate Plan and the SOA which are approved by Council. The SOA will be replaced by the Local Outcomes Improvement Plan (October 2017) underpinned by Locality Plans.

Asset management planning (which is under development) and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision.

Equalities as well as environmental and rural implications are considered during the decision making process to promote fair access to services.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Decision makers receive objective analysis of a variety of options indicating how intended outcomes would be achieved together with the risks associated with those options.

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services.

The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council's Vision, Values and Standards within Corporate Plan. For example, significant partner engagement in health and social care Strategic and Locality Plans.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The corporate management structure consists of the Chief Executive, two Depute Chief Executives and ten Service Directors (in place during the year but subject to change commencing 2017/18). The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance review and development (PRD) process.

The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision-making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.

The Elected Members Development Programme includes the comprehensive Induction programme which is periodically supplemented by additional training. Members appointed to certain committees have also

Annual Governance Statement 2016/17

received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

F. Managing risks and performance through robust internal control and strong public financial management

The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee and the Scrutiny Committee for reviewing policy decisions.

The Council has a risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.

The Chief Financial Officer (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.

The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.

A Medium Term Financial Strategy, and associated Risk Register, and plans for revenue (5-year) and capital (10-year) based on corporate priorities are developed, led by the Corporate Management Team, and presented for approval by Council in February each year, along with the Corporate Transformation Programme proposals.

Revenue and Capital Budget Monitoring reports are presented to the Executive Committee on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Chief Officer Audit & Risk (Chief Audit Executive) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house Internal Audit team in conformance with the Public Sector Internal Audit Standards.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

The Council carries out an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Risk Committee whose role includes high level oversight of the Council's governance, risk management, and internal control arrangements.

The review was informed by the work of an officer Governance Self-Assessment Working Group which undertook an annual self-assessment against the Council's Local Code of Corporate Governance consistent with the principles and recommendations of the new CIPFA/SOLACE Framework (2016). This group has responsibility for monitoring compliance with the Local Code and making recommendations to ensure continuous improvement of the systems in place.

The review was also informed by assurances from: the Depute Chief Executives and Service Directors, who have responsibility for the development and maintenance of the governance environment within their departments and services and who in turn identify actions to improve governance at a departmental level; the Chief Officer Audit & Risk's annual report on the work of Internal Audit and independent opinion on the adequacy and effectiveness of the systems of internal control and governance; and comments made by External Auditors and other external scrutiny bodies and inspection agencies.

The conclusion from the review activity outlined above is that in 2016/17 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and

Annual Governance Statement 2016/17

effective, and are consistent with the principles and recommendations of the new CIPFA/SOLACE Framework (2016).

Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where further improvement in governance arrangements can be made to enhance compliance with the Local Code:

- (a) In light of the on-going significant challenges in addressing cost pressures and responding to the changes in government funding: (i) complete remaining service people planning and succession planning to enable the Council's Strategic People Plan to be developed; (ii) ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's corporate plan and priorities thus managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available; and (iii) continue to monitor governance of arms-length external organisations (ALEOs).
- (b) On-going monitoring and review of the Performance Management Framework to ensure it informs improvement activity and decision making. This will include the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value, acting as a focus for evidencing value for money in service provision and linked to financial, people and business planning.
- (c) The Council's decision to implement the new Business World ERP System from April 2017 means that there will be a requirement to review and agree amended Financial Regulations, policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations.
- (d) Review and possible reshaping of the Corporate Transformation Programme and consistent application across all the activity of the demonstrated key success factors including the robust definition of Business Case and Benefits, Return on Investment, Programme and Change Management, and Risk Management to ensure there is confidence in the delivery of improvements and savings to enable delivery of efficient and effective services to customers in a sustainable way.
- (e) Further actions to ensure comprehensive data and information management across the Council and within each department in all relevant aspects of service delivery through appropriate awareness of and adherence to procedures, practices and guidelines to ensure full compliance with legislation and regulations, both current and planned.
- (f) Continue to improve the reporting arrangements to: (i) Evidence that learning from complaints is taking place and SPSO decisions are being reported to elected members; and (ii) Expand the volume of compliments and other comments, to gather a wide range of feedback from service users, and ensure these are reflected alongside the arrangements in place for dealing with complaints.
- (g) Development and implementation of standardised framework for reviewing strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future, comply with community empowerment principles, and meet locality needs and priorities, and for enhancing on-going delivery of capital programmes and projects linked to the corporate priorities.

These actions to enhance the governance arrangements in 2017/18 are incorporated where appropriate within the Council's service directorate business plans and their implementation and operation will be driven and monitored by the Corporate Management Team in order to inform the next annual review. Internal Audit work planned in 2017/18 is designed to test improvements and compliance.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council's systems of internal control and governance. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in all significant respects.

Remuneration Report

The Local Authority Accounts (Scotland) Regulations 1985, as amended by the Local Authority Accounts (Scotland) Amendment Regulations 2011, require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

Remuneration Policy

Remuneration of Senior Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Convener, Senior Councillors or Councillors. A Senior Councillor is a Councillor who holds a significant position of responsibility in the Council's political management structure.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2016/17 the salary for the Leader of Scottish Borders Council is £33,789. The regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its Senior Councillors shall not exceed £295,643. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The policy for Scottish Borders Council is to have a maximum of 14 Senior Councillors plus a Council Leader and Convener.

The total remuneration for Scottish Borders Councils' Senior Councillors, excluding the Leader and Convener, is £295,371. Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become members of the pension scheme.

The Remuneration for Members scheme which encompasses the salaries of all elected members including the Leader and Senior Councillors was agreed at a meeting of the full Council on 24 May 2012 and then amended at the meeting of Council on 30 August 2012 to take account of changes to the Scheme of Administration. Since this date no further changes have been made.

Remuneration of Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services provides a Scheme of Salaries & Conditions of Service that provides a basis for determining the salaries of Chief Executives of Scottish local authorities. Teaching staff salaries are set by The Scottish Negotiating Committee for Teachers (SNCT).

A senior employee is any employee who:

- Has responsibility for the management of the local authority to the extent that the person has power to direct or control the major activities of the authority whether solely or collectively with other persons; or
- Holds a post that is politically restricted by reason of section 2(1)(a), (b) or (c) of the Local Government and Housing Act 1989; or
- Whose annual remuneration, including any annual remuneration from a local authority subsidiary body, is £150,000 or more.

Remuneration Report

Remuneration Disclosures

General Disclosure by Pay Band

The Code of Practice on Local Authority Accounting in the UK also requires information to be provided on the number of persons whose remuneration was £50,000 or more. This information is to be disclosed in bands of £5,000. The numbers of employees at Scottish Borders Council whose remuneration was £50,000 or more, excluding employer's pension and national insurance contributions, is shown in the following table:

| Remuneration Bands | Chief Officer | | Teachers | | Other Staff | | Total | |
|-----------------------|---------------|-----------|-----------|-----------|-------------|-----------|------------|------------|
| | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| £50,000 - £54,999 ^ | - | 2 | 48 | 57 | 17 | 21 | 65 | 80 |
| £55,000 - £59,999 ^ | 2 | - | 15 | 14 | 3 | 1 | 20 | 15 |
| £60,000 - £64,999 | 4 | 6 | 2 | 3 | 1 | 1 | 7 | 10 |
| £65,000 - £69,999 ^ | 1 | 1 | 2 | 2 | 1 | - | 4 | 3 |
| £70,000 - £74,999 * | 2 | 3 | 5 | 2 | - | 1 | 7 | 6 |
| £75,000 - £79,999 ^ | - | - | - | 2 | 1 | - | 1 | 2 |
| £80,000 - £84,999 | 3 | 4 | - | - | - | - | 3 | 4 |
| £85,000 - £89,999 | 2 | 2 | - | - | - | - | 2 | 2 |
| £90,000 - £94,999 ^ | 1 | - | - | - | - | - | 1 | - |
| £95,000 - £99,999 | - | - | - | - | - | - | - | - |
| £100,000 - £104,999 | 1 | - | - | - | - | - | 1 | - |
| £105,000 - £109,999 | - | 2 | - | - | - | - | - | 2 |
| £110,000 - £114,999 | 1 | - | - | - | - | - | 1 | - |
| £115,000 - £119,999 | - | - | - | - | - | - | - | - |
| £120,000 - £124,999 | - | - | - | - | - | - | - | - |
| £125,000 - £129,999 | 1 | - | - | - | - | - | 1 | - |
| £130,000 - £134,999 ^ | 1 | 1 | - | - | - | - | 1 | 1 |
| £135,000 - £139,999 | - | - | - | - | - | - | - | - |
| £140,000 - £144,999 | - | - | - | - | - | - | - | - |
| £145,000 - £149,999 | - | - | - | - | - | - | - | - |
| £150,000 - £154,999 | - | - | - | - | - | - | - | - |
| £155,000 - £159,999 | - | - | - | - | - | - | - | - |
| £160,000 - £164,999 | - | - | - | - | - | - | - | - |
| £165,000 - £169,999 | - | - | - | - | - | - | - | - |
| £170,000 - £174,999 | - | - | - | - | - | - | - | - |
| £175,000 - £179,999 ^ | 1 | - | - | - | - | - | 1 | - |
| Total | 20 | 21 | 72 | 80 | 23 | 24 | 115 | 125 |

Key:

* Indicates bandings that contain employees whose remuneration contained an element of voluntary severance or early retirement within 2016/17.

^ Indicates bandings that contain employees whose remuneration contained an element of voluntary severance or early retirement within 2015/16.

Remuneration Report

Remuneration of Senior Councillors

The table below provides details of the remuneration paid to the Council's Senior Councillors.

| Total Remuneration 2015/16 £ | Councillor Name | Responsibility | Salaries, fees and allowances £ | Taxable Expenses £ | Total Remuneration 2016/17 £ |
|------------------------------------|-----------------|--|------------------------------------|-----------------------|------------------------------------|
| 33,454 | D Parker | Leader of the Council | 33,789 | - | 33,789 |
| 25,090 | G Garvie | Convener | 25,341 | - | 25,341 |
| 58,544 | | Leader and Convener Remuneration | 59,130 | - | 59,130 |
| 25,090 | J Mitchell | Depute Leader of the Council | 25,341 | - | 25,341 |
| 22,666 | M Cook | Executive Member for HR and Corporate Improvement | 22,893 | - | 22,893 |
| 22,666 | V Davidson | Executive Member for Culture, Sport, Youth & Communities | 22,893 | - | 22,893 |
| 22,666 | F Renton | Executive Member for Social Work & Housing | 22,893 | - | 22,893 |
| 22,666 | D Moffat | Executive Member for Community Safety | 22,893 | - | 22,893 |
| 22,666 | J Brown | Executive Member for Community Planning/Vice Convener | 22,893 | - | 22,893 |
| 22,666 | A Aitchison | Executive Member for Education | 22,893 | - | 22,893 |
| 22,666 | S Bell | Executive Member for Economic Development | 22,893 | - | 22,893 |
| 22,701 | G Edgar | Executive Member for Roads and Infrastructure | 22,893 | - | 22,893 |
| 22,666 | D Paterson | Executive Member for Environmental Services | 22,893 | - | 22,893 |
| 22,666 | R Smith | Executive Member for Planning and Environment | 22,893 | - | 22,893 |
| 20,347 | W Archibald | Convener of the Licensing Board | 20,550 | - | 20,550 |
| 20,347 | M Ballantyne | Leader of Opposition | 20,550 | - | 20,550 |
| | | | | | |
| | | | | | |
| 292,479 | | Total Other Senior Councillor Remuneration | 295,371 | - | 295,371 |
| 351,023 | | Total Senior Councillor Remuneration | 354,501 | - | 354,501 |

(1) The total remuneration figures relate to the salary, fees and allowance for 2016-17 are as included in the Comprehensive Income and Expenditure Statement. They are only in respect of monies paid to Councillors whilst actually holding a Senior Councillor position during that year.

(2) Councillor Bhatia held the position of Depute Leader (Health Services) which is not a remunerated post.

Total Remuneration paid to Councillors

The Council paid the following salaries, allowances and expenses to all Councillors (including Senior Councillors above) during the year.

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------|------------------|
| 669 | Salaries | 676 |
| 109 | Expenses | 98 |
| 778 | Total | 774 |

The draft annual return of Councillors' salaries and expenses for 2016/17 is available on the Council's website at www.scotborders.gov.uk.

Remuneration Report

Remuneration of Senior Employees

The table below provides details of the remuneration paid to the Council's Senior Employees. The table reflects the Council corporate management restructure which resulted in the introduction of the three service groupings of Chief Executives, People and Place.

| Restated 2015/16 | | | 2016/17 | | | | |
|---|--------------|--|----------------------------------|------------------|---|-----------------------------------|-----------------------|
| | | | Salaries, fees and allowances | Taxable Expenses | Compensation for loss of employment | Benefits other than in cash | Total Remuneration |
| Total Remuneration £ | Name | Post Title | £ | £ | £ | £ | £ |
| Senior Employees in post as at 01/04/16 | | | | | | | |
| 127,437 | TM Logan | Chief Executive (1) | 133,017 | - | - | 12,893 | 145,910 |
| 20,960 | P Barr | Depute Chief Executive (2) | 21,170 | - | - | - | 21,170 |
| 103,031 | J McDiarmid | Depute Chief Executive | 105,818 | - | - | - | 105,818 |
| 111,251 | JR Dickson | Corporate Transformation & Service Director (3) | 109,704 | - | - | - | 109,704 |
| 85,237 | KD Robertson | Chief Financial Officer (4) | 86,479 | 86 | - | - | 86,565 |
| 80,187 | J Craig | Service Director Neighbourhood Services | 82,511 | - | - | - | 82,511 |
| 66,168 | C Hepburn | Chief Human Resources Officer | 71,723 | - | - | - | 71,723 |
| 80,056 | EH Torrance | Chief Social Work Officer (5) | 53,884 | 7 | - | - | 53,891 |
| | | | (FYE 80,697) | | | | |
| 80,203 | GB Frater | Service Director Regulatory Services (6) | 82,911 | 48 | - | - | 82,959 |
| 86,207 | D Manson | Service Director Children & Young People | 87,024 | - | - | - | 87,024 |
| - | D Girdler | Chief Officer Roads (appointed 12 September 2016) | 40,643 | - | - | - | 40,643 |
| | | | (FYE 73,525) | | | | |
| 677 (FYE 84,000) | M Joyce | Service Director Assets & Infrastructure (appointed 29 March 2016) | 84,000 | 69 | - | - | 84,069 |
| Senior Employees departed post before 01/04/17 | | | | | | | |
| 17,416 (FYE 72,797) | B Park | Chief Officer Roads (appointed 5 January 2016, left 31 August 2016) | 30,635 | - | - | - | 30,635 |
| | | | (FYE 73,525) | | | | |
| 858,830 | | Total | 989,519 | 210 | - | 12,893 | 1,002,622 |

Notes

- (1) TM Logan figure of £133,017 includes £928 for 25% balance of Returning Officer fee for the General Election on 7 May 2015; £6231.75 for 75% of Returning Officer fee for the Scottish Parliament Election on 5 May 2016 and £2,014 for 75% of Counting Officer fee for the European Union Referendum on 23 June 2016.
- (2) P Barr seconded to SB Cares (subsidiary) as Managing Director. The above figure represents 20% of time employed by SBC, with the remaining 80% (£84,678) met by SB Cares.
- (3) JR Dickson figure of £109,704 includes £3,061.64 for Depute Returning Officer fee for the Scottish Parliament Election on 5 May 2016 and £2,581.01 for Depute Counting Officer fee for the European Union Referendum on 23 June 2016.
- (4) KD Robertson figure of £86,479 includes £200 Count Supervision fee for the Scottish Parliament Election on 5 May 2016 and £200 Count Supervision fee for the European Union Referendum on 23 June 2016.
- (5) E Torrance seconded to Health & Social Care Partnership from 1 December 2016.
- (6) GB Frater figure of £82,911 includes £200 Count Supervision fee for the Scottish Parliament Election on 5 May 2016 and £200 Count Supervision fee for the European Union Referendum on 23 June 2016.

The Council contributes £50,000 per annum towards salary and pension contributions of the post of Director of Public Health. Details of the remuneration paid in respect of this post can be found within the annual financial statements of NHS Borders (Borders Health Board). The Chief Officer post for the Integrated Joint Board between the Council and NHS Borders is funded by NHS Borders.

Remuneration Report

Exit Packages

The total cost and numbers of exit packages are set out in the tables below for 2015/16 and 2016/17:

2016/17

| Exit Package Cost band (including special payments) 2016/17 | Number of Compulsory Redundancies | Number of Other Agreed Departures | Total Number of Exit Packages by Cost Band | Total cost of Exit Packages in each band £ |
|--|---|---|--|---|
| £0 - £20,000 | 7 | 7 | 14 | 110,827 |
| £20,001- £40,000 | 1 | 4 | 5 | 127,551 |
| £40,001- £60,000 | 1 | 3 | 4 | 192,367 |
| £60,001- £80,000 | - | - | - | - |
| £80,001- £100,000 | - | - | - | - |
| £100,001- £150,000 | - | - | - | - |
| £150,001- £200,000 | - | - | - | - |
| Total | 9 | 14 | 23 | 430,745 |

The total costs of £0.431m in the table above includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year.

2015/16

| Exit Package Cost band (including special payments) 2015/16 | Number of Compulsory Redundancies | Number of Other Agreed Departures | Total Number of Exit Packages by Cost Band | Total cost of Exit Packages in each band £ |
|--|---|---|--|---|
| £0 - £20,000 | 9 | 16 | 25 | 240,580 |
| £20,001- £40,000 | - | 33 | 33 | 941,424 |
| £40,001- £60,000 (1) | - | 4 | 4 | 189,484 |
| £60,001- £80,000 | - | 5 | 5 | 333,973 |
| £80,001- £100,000 (2) | - | 1 | 1 | 91,525 |
| £100,001- £150,000 | 1 | 1 | 2 | 261,880 |
| £150,001- £200,000 (3) | - | 1 | 1 | 174,710 |
| Total | 10 | 61 | 71 | 2,233,576 |

Remuneration Report

Pension Benefits

Pension benefits for Councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Pension benefits for Councillors are based on a career average pay. The pay for Councillors for each year or part year ending 31 March increases by the cost of living, as measured by the appropriate index between the end of the year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees, there is a career average pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The normal retirement age under the scheme for both Councillors and employees is now as per the state pension.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much of their pay falls into each tier. The tiers and members contributions rates for 2016/17 were as follows:

| Whole Time Pay | 2016/17 |
|--|---------|
| On earnings up to and including £20,500 (2015/16 £20,500) | 5.50% |
| On earnings above £20,500 and up to £25,000 (2015/16 £20,500 to £25,000) | 7.25% |
| On earnings above £25,000 and up to £34,400 (2015/16 £25,000 to £34,400) | 8.50% |
| On earnings above £34,400 and up to £45,800 (2015/16 £34,400 to £45,800) | 9.50% |
| On earnings above £45,800 (2015/16 £45,800) | 12.00% |

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

Following the changes in 2009 there is no longer an automatic entitlement to a lump sum. Members of the Pension Fund may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

As of 1 April 2015, the Local Government Pension Scheme (Scotland) Regulations 2014 came into effect. This changed the accrual rate of guaranteed pension to 1/49th of career average salary, effective from 1 April 2015.

The value of accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive pension benefits on retirement without reduction (where benefits are paid on earlier than "normal date of retiral") and without the exercise of any option to commute pension entitlement into a lump sum and without any adjustment for the effects of inflation.

The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment.

Remuneration Report

Pension Benefits of Senior Councillors

The pension entitlements for Senior Councillors for the year to 31 March 2017 are shown in the following table, together with the contribution made by the Council to each Senior Councillor's pension during the year. It should be noted all Councillor pensions reported below are calculated on career average earnings.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of total local government service, including any service with a Council subsidiary body.

| Councillor Name | Responsibility | In-year pension contributions | | Accrued pension benefits | | |
|-----------------|--|-------------------------------|---------------------------|--------------------------|---------------------|-------------------------------|
| | | For year to 31 March 2016 | For year to 31 March 2017 | Type | As at 31 March 2017 | Difference from 31 March 2016 |
| | | £ | £ | | £ | £ |
| D Parker | Leader of the Council | 6,022 | 6,082 | Pension Lump Sum | 5,897 p.a 2,611 | 805 p.a 59 |
| G Garvie | Convener | 4,516 | 4,304 | Pension Lump Sum | 2,209 p.a - | 84 p.a - |
| J Mitchell | Depute Leader of the Council | 4,516 | 4,561 | Pension Lump Sum | 3,830 p.a 1,615 | 313 p.a (124) |
| M J Cook | Executive Member for HR and Corporate Improvement | 4,080 | 4,121 | Pension Lump Sum | 4,157 p.a 1,863 | 533 p.a 33 |
| V Davidson | Executive Member for Culture, Sport, Youth & Communities | 4,080 | 4,121 | Pension Lump Sum | 3,926 p.a 1,729 | 551 p.a 43 |
| D P Moffat | Executive Member for Community Safety | 4,080 | 4,121 | Pension Lump Sum | 3,714 p.a 1,606 | 567 p.a 53 |
| J Brown | Executive Member for Community Planning/Vice Convener | 4,080 | 4,121 | Pension Lump Sum | 4,682 p.a 4,844 | 291 p.a (26) |
| A Aitchison | Executive Member for Education | 4,080 | 4,121 | Pension Lump Sum | 3,575 p.a 1,526 | 258 p.a (126) |
| S Bell | Executive Member for Economic Development | 4,080 | 4,125 | Pension Lump Sum | 2,072 p.a - | 127 p.a - |
| G Edgar | Executive Member for Roads and Infrastructure | 4,080 | 4,121 | Pension Lump Sum | 2,071 p.a - | 126 p.a - |
| D Paterson | Executive Member for Environmental Services | 4,080 | 4,121 | Pension Lump Sum | 8,319 p.a 15,756 | 723 p.a 492 |
| R Smith | Executive Member for Planning and Environment | 4,080 | 4,121 | Pension Lump Sum | 3,761 p.a 1,633 | 218 p.a (149) |
| Total | | 51,774 | 52,040 | | | |

Notes

- (1) Councillors Renton and Ballantyne are not part of the Pension Scheme.
- (2) Some Senior Councillors have transferred in previous pension rights to the Local Government Pension Scheme, which has purchased pension in addition to their statutory benefits.

Remuneration Report

Pension Benefits of Senior Employees

The pension entitlements for Senior Employees for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each Senior Employee's pension during the full year to 31 March 2017.

| Name | | In-year pension contributions | | Accrued pension benefits | | |
|---|---|------------------------------------|---------------------------|--------------------------|----------------------|-------------------------------|
| | | Restated for year to 31 March 2016 | For year to 31 March 2017 | Type | As at 31 March 2017 | Difference from 31 March 2016 |
| Senior Employees in post as at 01/04/16 | | £ | £ | | £ | £ |
| TM Logan (1) | Chief Executive | 21,849 | 20,915 | Pension Lump Sum | 38,305 p.a 67,156 | (1,353) p.a (7,606) |
| P Barr (2) | Depute Chief Executive | 3,773 | 3,811 | Pension Lump Sum | 22,461 p.a 22,609 | 2,381 p.a 224 |
| J McDiarmid | Depute Chief Executive | 18,546 | 19,047 | Pension Lump Sum | 6,037 p.a - | 2,245 p.a - |
| JR Dickson | Corporate Transformation & Service Director | 18,546 | 18,731 | Pension Lump Sum | 10,597 p.a - | 2,230 p.a - |
| KD Robertson | Chief Financial Officer | 15,341 | 15,494 | Pension Lump Sum | 29,951 p.a 53,443 | 2,051 p.a 529 |
| J Craig | Service Director Neighbourhood Services | 14,434 | 14,852 | Pension Lump Sum | 31,423 p.a 59,459 | 2,506 p.a 1,675 |
| C Hepburn | Chief Human Resources Officer | 11,910 | 12,910 | Pension Lump Sum | 10,809 p.a 2,387 | 2,108 p.a 184 |
| EH Torrance (3) | Chief Social Work Officer | 14,382 | 9,684 | Pension Lump Sum | 39,827 p.a 85,345 | 2,040 p.a 845 |
| GB Frater | Service Director Regulatory Services | 14,434 | 14,852 | Pension Lump Sum | 41,324 p.a 88,892 | 2,783 p.a 2,504 |
| D Manson | Service Director Children and Young People (appointed 2 March 2015) | 15,517 | 15,664 | Pension Lump Sum | 3,688 p.a - | 1,811 p.a - |
| D Girdler | Chief Officer Roads (appointed 12 September 2016) | - | 7,316 | Pension Lump Sum | 838 p.a - | 838 p.a - |
| M Joyce (4) | Service Director Assets & Infrastructure (appointed 29 March 2016) | 122 | 15,242 | Pension Lump Sum | 5,256 p.a - | 5,242 p.a - |
| Senior Employees departed post before 01/04/17 | | | | | | |
| B Park | Chief Officer Roads (appointed 5 January 2016, left 31 August 2016) | 3,716 | 5,514 | Pension Lump Sum | 26,577 p.a 54,454 | 944 p.a 657 |
| Total | | 152,570 | 174,032 | | | |

Notes

The lump sum figures in the above table show the statutory lump sum amounts payable to members of the LGPS, in respect of service under the scheme with the Council up to 31 March 2009 (when there was no longer an automatic entitlement to a lump sum). The accrued pension benefits include any transfer of benefits from another pension scheme but do not include benefits relating to additional voluntary contributions (i.e. contributions which do not require to be made by an individual under the LGPS). The in-year pension contributions represent the total contributions for the individual irrespective of the post(s) held for the year(s) that the post holder became/continued to be categorised as a Senior Employee.

- (1) T M Logan Car salary sacrifice commenced during 2016/17
- (2) P Barr seconded to SB Cares (subsidiary) from 1 April 2015. The above figure for in year contributions represents 20% of time employed by SBC.
- (3) E Torrance seconded to Health & Social Care Partnership from 1 December 2016.
- (4) M Joyce figure includes transfer in of pension rights.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council. Further detail on the movement in reserves can be found at Note 31 on page 85.

Movement in reserves during 2015/16

| General Fund Balance | Capital Fund | Property Maintenance Fund | Insurance Fund | Total Usable Reserves | Unusable Reserves | Total Authority Reserves | Notes |
|-----------------------|--------------|---------------------------|----------------|-----------------------|-------------------|--------------------------|----------|
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Balance at 01/04/2015 | (18,991) | (7,552) | (39) | (1,314) | (27,896) | 9,579 | (18,317) |

Movement in reserves during 2015/16

| | | | | | | | | |
|--|-----------------|----------------|--------------|----------------|-----------------|-----------------|-----------------|---------|
| Total Comprehensive Income & Expenditure | (4,786) | - | - | - | (4,786) | (43,758) | (48,544) | C I & E |
| Adjustments between accounting basis & Funding basis under regulations | 615 | 974 | (63) | (7) | 1,518 | (1,518) | - | 31 |
| Increase or Decrease In 2015/16 | (4,171) | 974 | (63) | (7) | (3,268) | (45,276) | (48,544) | |
| Balance at 31/03/2016 carried forward | (23,163) | (6,578) | (102) | (1,321) | (31,164) | (35,697) | (66,861) | |

Movement in reserves during 2016/17

| General Fund Balance | Capital Fund | Property Maintenance Fund | Insurance Fund | Total Usable Reserves | Unusable Reserves | Total Authority Reserves | Notes |
|-----------------------|--------------|---------------------------|----------------|-----------------------|-------------------|--------------------------|----------|
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Balance at 01/04/2016 | (23,163) | (6,578) | (102) | (1,321) | (31,164) | (35,697) | (66,861) |

Movement in reserves during 2016/17

| | | | | | | | | |
|--|-----------------|----------------|------------|----------------|-----------------|---------------|---------------|---------|
| Total Comprehensive Income & Expenditure | 5,343 | - | - | - | 5,343 | 63,754 | 69,097 | C I & E |
| Adjustments between accounting basis & Funding basis under regulations | (475) | 57 | 102 | 196 | (119) | 119 | - | 31 |
| Increase or Decrease In 2016/17 | 4,868 | 57 | 102 | 196 | 5,224 | 63,873 | 69,097 | |
| Balance at 31/03/2017 carried forward | (18,294) | (6,521) | 0 | (1,125) | (25,940) | 28,176 | 2,236 | |

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. In accordance with new guidance issued by CIPFA, the Comprehensive Income and Expenditure Statement has been reported on a departmental basis in 2016/17. The figures for 2015/16 have therefore been restated accordingly

| 2015/16 Restated | | | 2016/17 | | | |
|-------------------|-----------------|---|-------------------|------------------|-----------------|-------|
| Gross Expenditure | Gross Income | Net Expenditure | Gross Expenditure | Gross Income | Net Expenditure | Notes |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| 38,507 | (5,657) | 32,850 | 48,991 | (5,905) | 43,086 | |
| 188,884 | (17,449) | 171,435 | 235,131 | (68,323) | 166,808 | |
| 70,822 | (15,363) | 55,459 | 65,393 | (17,919) | 47,474 | |
| 34,991 | (31,219) | 3,772 | 35,165 | (32,913) | 2,252 | |
| 1,413 | - | 1,413 | 4,143 | - | 4,143 | |
| 334,617 | (69,688) | 264,929 | 388,823 | (125,060) | 263,763 | |
| 334,617 | (69,688) | 264,929 | 388,823 | (125,060) | 263,763 | |
| 6,600 | (6,698) | (98) | 10,939 | (11,030) | (91) | 8 |
| 1,914 | (1,263) | 652 | 1,599 | (1,581) | 17 | |
| 12,320 | - | 12,320 | 11,879 | - | 11,879 | } 29 |
| - | (60) | (60) | - | (55) | (55) | |
| 21,224 | (15,644) | 5,580 | 22,468 | (17,293) | 5,175 | 20 |
| - | (178,870) | (178,870) | - | (170,200) | (170,200) | |
| - | (33,707) | (33,707) | - | (33,594) | (33,594) | |
| 11,086 | (57,679) | (46,593) | 10,162 | (58,004) | (47,842) | |
| - | (28,939) | (28,939) | - | (23,709) | (23,709) | 28 |
| | | (4,786) | | | 5,343 | |
| | | (Surplus)/Deficit on Provision of Services | | | 5,343 | |

Comprehensive Income and Expenditure Statement

| 2015/16 | | | | 2016/17 | | | |
|-------------------|--------------|-----------------|--|-------------------|-------|-----------------|-------|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | £'000 | Net Expenditure | Notes |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 | |
| | | (4,786) | (Surplus)/Deficit on Provision of Services | | | 5,343 | |
| | | (8,032) | (Surplus)/Deficit on revaluation of Non Current Assets | | | (5,032) | |
| | | - | Any Other (Gains) Or Losses | | | (723) | |
| | | (35,726) | Actuarial (gains)/losses on pension assets/liabilities | | | 69,509 | |
| | | (43,758) | Other Comprehensive Income and Expenditure | | | 63,754 | |
| | | (48,544) | Total Comprehensive Income and Expenditure | | | 69,097 | |

Balance Sheet

The Balance Sheet shows the value as at the 31st March of the assets and liabilities recognised by the authority. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

| 2015/16 £'000 | | 2016/17 £'000 | Notes |
|------------------|---|------------------|-------|
| 302,841 | Property Plant and Equipment | | |
| 15,019 | Other Land and Buildings | 304,560 | } 12 |
| 89,035 | Vehicle, Plant, Furniture & Equipment | 17,500 | |
| 4,116 | Infrastructure | 123,534 | |
| 33,108 | Surplus Assets | 3,838 | |
| 1,014 | Assets Under Construction | 27,259 | |
| 230 | Heritage Assets | 1,036 | 13 |
| 6,412 | Intangible Assets | 52 | 14 |
| | Long Term Debtors | 8,467 | 29 |
| 451,775 | Long Term Assets | 486,246 | |
| 676 | Intangible Assets - Current | 411 | 14 |
| - | Short Term Investments | - | |
| 1,020 | Inventories | 906 | 24 |
| 47,927 | Short Term Debtors | 46,759 | 30 |
| (9,525) | less Bad Debt Provision | (10,150) | |
| 16,476 | Cash and Cash Equivalents | 7,904 | 34 |
| 56,574 | Current Assets | 45,830 | |
| (3,261) | Short Term Borrowing | (12,300) | } 29 |
| (51,364) | Short Term Creditors | (52,657) | |
| (1,491) | Provisions | (1,434) | 25 |
| (56,116) | Current Liabilities | (66,391) | |
| (171,996) | Long Term Borrowing | (184,215) | 29 |
| (52,864) | Deferred Liabilities | (51,252) | |
| (747) | Due to Trust Funds and Common Good | (598) | |
| (4,305) | Provisions | (3,980) | 25 |
| (13,868) | Capital Grants Receipts in Advance | (11,851) | |
| (243,780) | Long Term Liabilities | (251,896) | |
| 208,453 | Net Assets excluding pension liability | 213,789 | |
| (141,592) | Pension Liability | (216,025) | 20 |
| 66,861 | Net Assets/(Liabilities) including pension liability | (2,236) | |

Balance Sheet

| 2015/16 £'000 | Financed By: | 2016/17 £'000 | Notes |
|------------------|--|------------------|-------------|
| | Useable Reserves | | |
| (6,578) | Capital Fund | (6,521) | } 31 |
| (23,163) | General Fund Balance | (18,294) | |
| (102) | Property Maintenance Fund | - | |
| (1,321) | Insurance Fund | (1,125) | |
| | Unusable Reserves | | |
| (118,459) | Capital Adjustment Account | (127,102) | } 31 |
| 5,189 | Financial Instruments Adjustment Account | 4,980 | |
| (70,201) | Revaluation Reserve | (72,079) | |
| 141,592 | Pension Reserve | 216,025 | |
| 6,182 | STACA Statutory Mitigation Account | 6,352 | |
| (66,861) | Total Reserves | 2,236 | |

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2015/16 £'000 | | 2016/17 | | Notes |
|------------------|---|----------|----------|-------|
| | | £'000 | £'000 | |
| (4,786) | Net (Surplus) or deficit on the provision of services | 5,343 | | |
| (37,503) | Adjustments to net (surplus) or deficit on the provision of services for non cash movements | (23,272) | | 32 |
| 28,203 | Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities | 23,890 | | 32 |
| (14,086) | Net Cash Flows From Operating Activities | | 5,961 | |
| | Investing Activities | | | |
| 46,267 | Purchase of PP&E, investment property and intangible assets | 45,088 | | |
| (1263) | Proceeds from PP&E, investment property and intangible assets | (1581) | | |
| (52) | Purchase/(Disposal) of short & long term investments | - | | |
| (34,607) | Other Items which are Investing Activities | (21088) | | |
| 10,345 | Net Cash Flows from Investing Activities | | 22,419 | |
| | Financing Activities | | | |
| - | Cash received from loans & other borrowing | (21300) | | |
| 1,462 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 1,612 | | |
| 63 | Repayments of short and long term borrowing | 62 | | |
| 737 | Other items which are financing activities | (182) | | |
| 2,262 | Net Cash Flows from Financing Activities | | (19,808) | |
| (1,479) | Net (Increase) or Decrease in Cash and Cash Equivalents | | 8,572 | |
| 14,997 | Cash and Cash Equivalents at the beginning of the reporting period | | 16,476 | |
| 16,476 | Cash and Cash Equivalents at the end of the reporting period | | 7,904 | 34 |
| (1,479) | Movement | | 8,572 | |

Accounting Policies

General Principles

The Annual Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant service.

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.

Works of a capital nature are charged as capital expenditure when they are completed, before which they are carried as Assets under Construction on the Balance Sheet.

Interest payable on borrowing and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption. CRC allowances purchased for future years responsibilities are shown as current intangible assets. When the allowances are surrendered to the CRC Registry, the current intangible asset will be reduced by the allowances surrendered and the provision decreased.

Accounting Policies

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirements or loans fund principal charges. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wages and salary rates applicable in the following accounting year being the period in which the employee takes the benefit. The accrual is charged to the Surplus / Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate employment before the normal retirement date or a decision by an employee to accept voluntary severance. They are charged on an accruals basis to the appropriate service, or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment.

Post Employment Benefits

Employees of the Council are members of two separate pension schemes:

- The Scottish Teachers Superannuation Scheme which is managed by the Scottish Public Pensions Agency, an executive agency of the Scottish Government.
- The Local Government Pension Scheme, administered by Scottish Borders Council.

Accounting Policies

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. However the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet and the Education Service line in the Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of Scottish Borders Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 3.3% (based on the yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve).

The assets of the Scottish Borders Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price and
- Property – market value

The change in the net pension's liability is analysed into the following components:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have

Accounting Policies

updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- contributions paid to the Scottish Borders Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Reporting Period

Events after the Balance Sheet are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have been a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Financial Instruments

Financial assets and liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the instrument.

Accounting Policies

Financial Liabilities:

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle and interest repayable. Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

All debt instruments were re-measured at amortised cost as at 1 April 2007. For loans with a constant rate of interest there is no change in practice. However the Council does hold some stepped interest loans. These have been re-measured using the Effective Interest Rate (EIR) method which smoothes out the interest rate over the entire loan period. These loans are shown in the Balance Sheet at a carrying amount which reflects the consequence of this smoothing calculation and is inclusive of accrued interest. For all non-EIR loans the Balance Sheet carrying amount now also includes accrued interest.

Financial Assets:

Financial assets can be classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available for sale assets – assets that have a quoted market price and/or do not have a fixed or determinable payments.

Loans and receivables are initially measured at fair value and subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The Council does not hold any available for sale financial assets.

Accounting Policies

Financial Guarantee contracts are now also required to be re-measured to assess the likelihood of the guarantee being called in. The Council has no guarantees which fall within this requirement.

Fair Value Measurement:

The authority measures some of its non-financial assets such as surplus assets and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

Government Grants

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payment.
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement of Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Accounting Policies

Heritage Assets

The Council has four identifiable collections of Tangible Heritage Assets which are held by a number of services in the Council. The collections are accounted for as follows:

- **Museum Collection**
The collection of various artefacts is reported on the Balance Sheet using the best available valuations; the Museum Service is working towards compliance with the Code. Where possible external valuations will be used to supplement the professional valuations carried out by Museums Service Officers. The artefacts are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Fine Arts Collection**
The fine art picture collection is reported on the Balance Sheet on the basis of the professional opinion of value by the officers of the Museum Service using where possible the latest information on comparable pictures from sale rooms. As with the Museum Collection the Service is working towards more external valuation of the collection. The pictures are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Archive Centre Collection**
Due to the unique nature and volume of the papers held in the Archive Centre no valuation of the collection has been undertaken and it is felt that such a task would not represent value for money. The papers are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Monuments, Memorials and Statues Collection**
The Property and Facilities Service look after all of the War Memorials, various monuments and statues and these are valued on the basis of Community Assets so are reported on the Balance Sheet at no value. It is felt that any other basis of valuation would not represent value for money. Depreciation would be inappropriate to charge in conjunction with the valuation basis used.

The Council has one identifiable collection of Intangible Heritage Assets which is held by the Archive Centre. The same accounting policy used for the Archive Centre Collection applies to this collection.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council as a result of past events [e.g. purchased software] is capitalised when it will bring benefits to the Council for more than one financial year.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

The balance is amortised to the relevant service line in the Comprehensive Income and Expenditure Statement over its useful life. The amortisation basis is reviewed on an annual basis to ensure any impairment is identified.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Inventories

Inventories are included in the Balance Sheet at the lower of cost or net realisable value.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Accounting Policies

As a non-financial asset, investment properties are measured at highest and best use, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependant on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

- A charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability.
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as the rent becomes payable).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Accounting Policies

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Private Finance Initiative (PFI)

PFI Contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on the Balance Sheet.

The original recognition of the assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Accounting Policies

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition: expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associate with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council has a de minimis limit of £1,000 for single items of expenditure and £5,000 for groups of items costing less than £1,000 each. Items below these amounts are charged to the Comprehensive Income and Expenditure Statement. These limits have been applied in order to exclude individual assets, or works below these amounts, from the asset register.

Measurement: assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council currently capitalises borrowing costs incurred whilst assets are under construction. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Surplus Assets – Fair value estimated at highest and best use from market participants perspective.
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where material impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulative gains).
- Where there is no balance in the Revaluation Reserve, or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Accounting Policies

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Non-current Assets Held for Sale: when it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and the fair value less costs to sell. Where there is subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation: depreciation is provided for on all Property, Plant and Equipment assets by allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. Assets Under Construction). Depreciation is calculated on the following bases:

- Land and Buildings
 - Land is not depreciated
 - Buildings are written off over their estimated life.
- Vehicles, Plant, Furniture and Equipment
 - Historic costs are written off over each asset's estimated life.
- Infrastructure
 - Historic costs are written off over the estimated useful life of the asset.
- Surplus Assets
 - Land is not depreciated
 - Buildings are written off over their estimated life.

Where an asset has major components with different estimated useful lives, these are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised in the accounts when:

- The Council has a present obligation (legal or constructive) as a result of a past event.
- It is probable that a transfer of economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the amount of the obligation.

Accounting Policies

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking in to account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – when it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle the provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement of Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Notes to the Core Financial Statements

Note 1 First Time Adoption of Accounting Standards

There has been no first time Adoption of Accounting Standards in 2016/17.

Note 2 Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The following Adopted International Financial Reporting Standards (IFRS) have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

IAS 26 Amendment to the reporting of pension scheme transaction costs

IAS 26 Amendment to the reporting of investment concentration

Note 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgments made in the Annual Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Note 4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to the Core Financial Statements

Note 5 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| 2015/16 | | | 2016/17 | | |
|---|---|--|---|---|--|
| Net Expenditure Chargeable to the General Fund £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 | Net Expenditure Chargeable to the General Fund £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 |
| 27,589 | 5,261 | 32,850 | 38,144 | 4,942 | 43,086 |
| 166,202 | 5,233 | 171,435 | 160,809 | 5,999 | 166,808 |
| 36,987 | 18,472 | 55,459 | 35,253 | 12,221 | 47,474 |
| 29,447 | (25,675) | 3,772 | 27,345 | (25,093) | 2,252 |
| | 1,413 | 1,413 | | 4,143 | 4,143 |
| 260,225 | 4,704 | 264,929 | 261,551 | 2,212 | 263,763 |
| (264,397) | (5,318) | (269,715) | (256,682) | (1,737) | (258,419) |
| (4,172) | (614) | (4,786) | 4,869 | 475 | 5,343 |
| | | Opening General Fund Balance | | | |
| (18,991) | | | (23,163) | | |
| (4,172) | | | 4,869 | | |
| | | Closing General Fund as 31 March | | | |
| (23,163) | | | (18,294) | | |

Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis. This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

Adjustments between Funding and Accounting Basis 2016/17

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (Note 1) £'000 | Net change for the Pensions Adjustments (Note 2) £'000 | Other Differences (Note 3) £'000 | Total Adjustments £'000 |
|--|--|---|-------------------------------------|----------------------------|
| Chief Executive | 3,911 | 830 | 201 | 4,942 |
| People | 3,138 | 1,268 | 1,593 | 5,999 |
| Place | 9,940 | 1,483 | 798 | 12,221 |
| Other | (18,030) | 45 | (7,108) | (25,093) |
| Non Distributed Costs | 7,957 | (3,877) | 63 | 4,143 |
| Net Cost Services | 6,916 | (251) | (4,453) | 2,212 |
| Other income and expenditure from the Expenditure and Funding Analysis | (11,605) | 5,175 | 4,693 | (1,737) |
| Difference between General Fund (Surplus) or Deficit and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services | (4,689) | 4,924 | 240 | 475 |

Notes to the Core Financial Statements

Adjustments between Funding and Accounting Basis 2015/16

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (Note 1) £'000 | Net change for the Pensions Adjustments (Note 2) £'000 | Other Differences (Note 3) £'000 | Total Adjustments £'000 |
|--|--|---|-------------------------------------|----------------------------|
| Chief Executive | 4,517 | 1,030 | (286) | 5,261 |
| People | 2,386 | 1,781 | 1,066 | 5,233 |
| Place | 16,239 | 1,847 | 386 | 18,472 |
| Other | (18,250) | 24 | (7,449) | (25,675) |
| Non Distributed Costs | 613 | 985 | (185) | 1,413 |
| Net Cost Services | 5,505 | 5,667 | (6,468) | 4,704 |
| Other income and expenditure from the Expenditure and Funding Analysis | (15,761) | 5,580 | 4,863 | (5,318) |
| Difference between General Fund (Surplus) or Deficit and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services | (10,256) | 11,247 | (1,605) | (614) |

(Note 1) Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied in the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for those which conditions were satisfied in the year.

(Note 2) Changes for Pension Adjustments

Net change for the removal of pension contributions and addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with the current service costs and past service costs.
- **For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

Notes to the Core Financial Statements

(Note 3) Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For Financing and investment income and expenditure** – the other differences column recognises adjustment to the General Fund for the timing differences for premiums and discounts and any other adjustments not included in notes 1 and 2 as detailed above.

Income received on a segmental basis is analysed below:

| Services | 2015/16 Income from Services £'000 | 2016/17 Income from Services £'000 |
|---|--|--|
| Chief Executive | (5,657) | (5,905) |
| People | (17,449) | (68,323) |
| Place | (15,363) | (17,919) |
| Other | (31,219) | (32,913) |
| Non Distributed Costs | - | - |
| Total income analysed on a segmental basis | (69,688) | (125,060) |

The Council's Expenditure and Income is analysed as follows:-

| Expenditure/Income | 2015/16 £'000 | 2016/17 £'000 |
|--|------------------|------------------|
| Expenditure | | |
| Employee Benefits Expenses | 144,197 | 140,576 |
| Other Service Expenses | 165,733 | 229,542 |
| Support Services Recharges | 1,779 | 2,143 |
| Depreciation, Amortisation, Impairment | 28,489 | 21,737 |
| Interest Payments | 12,320 | 11,879 |
| Disposal of assets | 651 | 18 |
| Total Expenditure | 353,169 | 405,895 |
| Income | | |
| Fees, Charges and Other Service Income | (69,786) | (125,152) |
| Interest and Investment Income | (60) | (55) |
| Income from Council Tax and Non Domestic Rates | (80,300) | (81,436) |
| Government Grants and Contributions | (207,809) | (193,909) |
| Total Income | (357,955) | (400,552) |
| (Surplus) or Deficit on the Provision of Services | (4,786) | 5,343 |

Note 6 Acquired and Discontinued Operations

There were no acquired or discontinued operations in the 2016/17 financial year.

Note 7 Prior Year Adjustments

Prior year adjustments in accordance with previous external audit recommendations have been carried out to fixed assets during 2016/17.

Notes to the Core Financial Statements

Note 8 Significant Trading Operation

SBc Contracts is the only 'Significant Trading Operation' at Scottish Borders Council in terms of the Local Government (Scotland) Act 2003. The financial performance is summarised below:

| 2015/16 £'000 | | 2016/17 £'000 | 3 Year Cumulative £'000 |
|------------------|-----------------------|------------------|-------------------------------|
| (14,363) | Turnover for the Year | (18,367) | (51,933) |
| (384) | (Surplus) / Deficit | (328) | (1,253) |

SBc Contracts undertakes a wide range of activities including:

- A range of revenue and capital work for Council Services (mainly highways and bridge construction).
- External contracts for other local authorities and the Scottish Government.
- Sub-contractor on a number of public contracts.
- A wide range of external contracts for the private sector.

SBc Contracts employs 42 manual workers and 14 management and support staff and utilises a wide range of vehicles and items of plant to carry out its work. The organisation continued to contribute strongly to Council resources both directly and indirectly through:

- Supporting additional high added-value jobs in the Vehicle Maintenance trading operation.
- Utilising additional Neighbourhood Services labour capacity, where appropriate
- Maintaining very competitive charge-out rates to offer "Best Value" for Council Revenue and Capital projects.

In 2016/17 SBc Contracts recorded an annual operating surplus of £0.425mm against a revised budget target of a £0.349 surplus. After technical adjustments for pension (IAS 19), Employee benefits accrual and Carbon Reduction Commitment the net final surplus was £0.327m.

In 2016/17 turnover increased by £4m, or 28% to £18.3m. This higher turnover helped to support the higher than budgeted operating surplus achieved. Of the total £6.6 million, 36.2% was generated by external work. The order book remains strong with major works programmed to start or continue on the new Kelso High School, Langlee Primary School, Broomlands Primary School, Old Tweed Bridge and at the Buccleuch & Firhill sites in Edinburgh.

SBc Contracts continues to contribute strongly to the local economy by providing sub-contracted work and plant/vehicle hires to the value of £8.4 million during 2016/17. Within the overall net surplus of £0.327m generated in 2016/17, £0.091m million was generated from external work and £0.236 million was generated from internal work.

Significant trading operations are required to at least achieve break-even over rolling three-year periods. For the 3 year period ending in financial year 2016/17 SBc Contracts recorded a surplus in each of the three years and generated a cumulative total surplus of £1.253 million.

Note 9 Agency Work

The Council acts as an intermediary for Scottish Water, collecting money on their behalf. In 2016/17 Scottish Borders Council received £0.358m in commission from Scottish Water as part of the agency agreement. This amount is set in legislation by the new Water Order which came into force in April 2014 covering the period April 2014 to March 2018.

Notes to the Core Financial Statements

Note 10 Related Parties

The Council is required to disclose material transactions with related parties, that is bodies and individuals that have the potential to control or influence the Council or be controlled and influenced by the Council.

Central Government has effective control over the general operations of the Council by providing the statutory framework in which the Council operates, the majority of the Council's funding by providing grants and prescribes the nature of many of the transactions the Council has with third parties, e.g. Housing Benefit.

Members of the Council have direct control over the financial and operating policies of the Council. A review of the interests declared in the Members' Register of Interests confirmed that the Council had no material transactions with any company in which any member had an interest. The Remuneration Report shows the total allowances paid to senior members in 2016/17. The Members' Register of Interests can be inspected and is available on the Council's web site at www.scotborders.gov.uk

A review by departments of their registers of interests confirmed that there were no material transactions between the Council and any company in which any officer had an interest.

During 2016/17, the Scottish Borders Council Pension Fund had an average balance of £2.286m (2015/16: £1.797m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.01m (2015/16: £0.01m). In addition the Council charged the Pension Fund £0.333 m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement is as follows:

| | 2015/16 | 2016/17 |
|---|-----------|-----------|
| Due to/(from) the Scottish Borders Council Pension Fund | £(0.671)m | £(0.168)m |

The Council provided routine material financial assistance to other bodies in 2016/17 as follows:

| | |
|-------------------------------------|---------|
| • Jedburgh Leisure Facilities Trust | £0.115m |
| • VisitScotland | £0.108m |

The Council works closely with NHS Borders in order to provide a range of services across health and social care pathways. In terms of social care specifically, NHS Borders contributes towards the cost of the services provided in four main ways.

Resource Transfer – a total of £2.507m was transferred from NHS Borders and utilised as follows:

| | |
|-----------------------------------|---------|
| Children's Services | £0.107m |
| Older People | £1.220m |
| Adults with Learning Difficulties | £0.978m |
| People with Mental Health Needs | £0.127m |
| Support Services | £0.075m |

Other funding from NHS Borders in 2016/17 to support services are:

| | |
|-----------------------------------|---------|
| Older people | £4.006m |
| Adults with Learning Difficulties | £1.937m |
| People with Mental Health Needs | £0.255m |
| People with Physical Difficulties | £0.310m |
| Other Support Services | £0.447m |

This includes the additional Scottish Government allocation of Social Care Funding directed by the Health and Social Care Partnership Integration Joint Board during the financial year.

Notes to the Core Financial Statements

Borders Ability Equipment Store

The Store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £1.033m in 2016/17 with a contribution from the NHS Borders of £0.251m. Direction of Social Care Funding by the Integration Joint Board to the equipment budget also accounted for £0.295m of this.

Galashiels Resource Centre

This is a day centre run jointly with the NHS Borders for adults with mental health needs. The full time manager of this service is employed by NHS Borders with a recharge of £0.026m to the Council. All other expenditure is incurred by the Council.

Scottish Borders Council is a corporate member of Tweedside NHT 2011 LLP and Bridge Homes LLP, which have been established to assist in the delivery of affordable housing, in accordance with the Scottish Government's National Housing Trust (NHT) initiative. The Council has consent to borrow (from the Scottish Government) to finance loans to Tweedside NHT 2011 LLP and Bridge Homes LLP in respect of housing units. The Council made no further advances to Tweedside NHT 2011 LLP during 2016/17 and received no capital repayment from the LLP during the same period. The Council paid £2.59m in respect of advances to Bridge Homes LLP during 2016/17 and again received no capital repayment in the year. The Council received interest on the advance from both LLP's. The Council's net advances to Tweedside NHT 2011 LLP and Bridge Homes LLP are shown within long term debtors on the Council's balance sheet. Bridge Homes LLP have been consolidated into the Council's Group Accounts as a Subsidiary.

SB Supports is a registered Limited Liability Partnership between Scottish Borders Council and SBC Nominees. This was established on 1st April 2015 to work in partnership on the provision of adult social care services. In 2016/17 the Council made a payment of £17.428m to SB Supports.

The Scottish Borders Health and Social Care Integration Board was established on 6th February 2016. This is a partnership between Scottish Borders Council and NHS Borders which has been established to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016. In 2016/17 the Council made a payment of £46.561m to the Board.

Live Borders, an integrated trust providing culture and leisure services on behalf of Scottish Borders Council was established on 1st April 2016. Services provided by the trust include Arts, Libraries, Archives, Museums, and Galleries. Sport and Leisure facilities previously managed by Borders Sport and Leisure Trust are now also provided by Live Borders. A payment of £6.282m was made to the trust in 2016/17.

Note 11 Audit Remuneration

In 2016/17 the agreed audit fee for the year was £0.263m in respect of services provided by Audit Scotland (KPMG in 2015/16 £0.264m). A further £7,000 fee was agreed in respect of services provided by Audit Scotland in relation to the audit of Scottish Borders Council Common Good and Trust Funds Annual Accounts.

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2016/17

| | Property Plant & Equipment | | | | | Heritage Assets | Total Assets |
|---|----------------------------|-----------------|-----------------|---------------------------|----------------|-----------------|------------------|
| | Other Land & Buildings | VPFE * | Infrastructure | Assets under Construction | Surplus Assets | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | | |
| Gross book value (GBV) at 31 March 2016 | 335,959 | 58,923 | 171,150 | 33,108 | 4,240 | 1,014 | 604,394 |
| Prior Period adjustment | 73 | - | - | 556 | - | 22 | 651 |
| Revised Gross book value (GBV) at 31 March 2016 | 336,032 | 58,923 | 171,150 | 33,664 | 4,240 | 1,036 | 605,045 |
| Acquisitions & Recognition in the year | 6,026 | 9,440 | 15,219 | 21,196 | - | - | 51,881 |
| Transfers between categories | 1,834 | (2,314) | 27,154 | (27,461) | 690 | - | (97) |
| Revaluations | 2,244 | - | - | - | 342 | - | 2,586 |
| Impairments | (2,408) | (337) | (141) | (140) | (139) | - | (3,165) |
| Disposals | (567) | (11,920) | (166) | - | (1,107) | - | (13,760) |
| Gross book value (GBV) at 31 March 2017 | 343,161 | 53,792 | 213,216 | 27,259 | 4,026 | 1,036 | 642,490 |
| Cumulative depreciation at 31 March 2016 | (33,118) | (43,904) | (82,115) | - | (124) | - | (159,261) |
| Prior Period adjustment | 72 | - | - | - | - | - | 72 |
| Revised Cumulative depreciation at 31 March 2016 | (33,046) | (43,904) | (82,115) | - | (124) | - | (159,189) |
| Depreciation for the year | (9,584) | (4,857) | (7,232) | - | (110) | - | (21,783) |
| Transfers between categories | 59 | 598 | (501) | - | (58) | - | 98 |
| Revaluations | 3,882 | - | - | - | 87 | - | 3,969 |
| Impairments | (19) | - | - | - | - | - | (19) |
| Disposals | 107 | 11,871 | 166 | - | 17 | - | 12,161 |
| Cumulative depreciation at 31 March 2017 | (38,601) | (36,292) | (89,682) | - | (188) | - | (164,763) |
| Net book value at 31 March 2017 | 304,560 | 17,500 | 123,534 | 27,259 | 3,838 | 1,036 | 477,727 |
| Net book value at 31 March 2016 | 302,841 | 15,019 | 89,035 | 33,108 | 4,116 | 1,014 | 445,133 |
| Prior Period adjustment | 145 | 0 | 0 | 556 | 0 | 22 | 723 |
| Revised Net book value at 31 March 2016 | 302,986 | 15,019 | 89,035 | 33,664 | 4,116 | 1,036 | 445,856 |

* VPFE – Vehicles, Plant, Furniture and Equipment

The Council had no investment properties in 2016/17.

Notes to the Core Financial Statements

Community assets are valued on a historical cost basis at Nil value as per the Code and include assets such as parks, playing fields, cemeteries, etc. Such assets are all included in Other Land & Buildings.

In accordance with IFRS13 Fair Value Measurement, all Surplus Assets are now valued at highest and best use from market participants perspective. All revaluations fall under Level 1 of the fair value hierarchy.

Negative revaluations are shown within the stated figures for impairment. In 2016/17 this amounted to a NBV of £1.983m (£8.051m in 15/16).

For net impairments £1.199m was charged to the CIES (15/16 £8.880m) and £0.002m charged to the Revaluation Reserve (£0.297m in 15/16)

Comparative Movements in 2015/16

| | Property Plant & Equipment | | | | | Heritage Assets | Total Assets |
|---|----------------------------|-----------------|-----------------|---------------------------|----------------|-----------------|------------------|
| | Other Land & Buildings | VPFE | Infrastructure | Assets under Construction | Surplus Assets | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | | |
| Gross book value (GBV) at 31 March 2015 | 317,463 | 55,541 | 162,118 | 26,976 | 4,866 | 1,014 | 567,978 |
| Acquisitions & Recognition in the year | 6,361 | 6,142 | 7,973 | 24,118 | 18 | - | 44,612 |
| Transfers between categories | 16,101 | - | 1,627 | (17,986) | 258 | - | - |
| Revaluations | 6,557 | 273 | 89 | - | 109 | - | 7,028 |
| Impairments | (8,988) | (380) | (587) | - | (407) | - | (10,362) |
| Disposals | (1,535) | (2,653) | (70) | - | (604) | - | (4,862) |
| Gross book value (GBV) at 31 March 2016 | 335,959 | 58,923 | 171,150 | 33,108 | 4,240 | 1,014 | 604,394 |
| Cumulative depreciation at 31 March 2015 | (27,019) | (40,920) | (75,635) | - | (136) | - | (143,710) |
| Depreciation for the year | (8,719) | (5,628) | (6,550) | - | (132) | - | (21,029) |
| Transfers between categories | 50 | - | - | - | (50) | - | - |
| Revaluations | 1,185 | - | - | - | 125 | - | 1,310 |
| Impairments | 1,220 | - | - | - | - | - | 1,220 |
| Disposals | 165 | 2,644 | 70 | - | 69 | - | 2,948 |
| Cumulative depreciation at 31 March 2016 | (33,118) | (43,904) | (82,115) | - | (124) | - | (159,261) |
| Net book value at 31 March 2016 | 302,841 | 15,019 | 89,035 | 33,108 | 4,116 | 1,014 | 445,133 |
| Net book value at 31 March 2015 | 290,444 | 14,621 | 86,483 | 26,976 | 4,730 | 1,014 | 424,268 |

Notes to the Core Financial Statements

Capital Commitments

As at 31 March 2017 the Council has entered into a number of commitments for the construction or enhancement of Property, Plant and Equipment in future years, this is budgeted to cost £11.379m. These commitments can be categorised as follows:-

| | Capital Commitments as at 31 March 2017 £'000 |
|-------------------|--|
| Place | 1,760 |
| People | 9,511 |
| Chief Executive's | 108 |
| Total | 11,379 |

Valuation and Depreciation

Land and Buildings

- The Council has adopted a 5-year rolling programme of revaluations whereby each individual asset will be examined during that term in line with events and planned capital expenditure. During 2016/17 the fixed assets relating to Social Work, Resources and Surplus Properties were re-valued. The valuation is an ongoing process carried out throughout the year to arrive at the final valuation figure.
- Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the open market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. In accordance with IFRS13 Fair Value measurement, Surplus assets are now valued at highest and best use. Properties were valued by the Council's Estates Manager, N.Hastie MRICS.

Vehicles, Plant, Furniture and Equipment

- All Vehicles and Plant were valued at depreciated historic cost.

Infrastructure

- Infrastructure was valued at depreciated historic cost.

Depreciation

- Land has not been depreciated.
- Buildings and Surplus Properties have been depreciated, using the straight-line method, over the remaining life of the asset as assessed by the valuer.
- Vehicles, Plant, etc. have been depreciated, using the straight-line method, over the remaining life of the asset as assessed by the Transport Manager.
- Furniture & Fittings are depreciated over five years.
- IT equipment is depreciated over three years.
- Roads infrastructure has been depreciated, using the straight-line method, over 25 years.
- IT infrastructure has been depreciated over five years.

Depreciation has been directly charged to services.

Notes to the Core Financial Statements

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Revaluation Cycle

The groups of land and buildings revalued in each of the last five years were:

- 1 April 2016 – Social Work, Resources and Surplus Properties
- 1 April 2015 – Technical Services and Surplus Properties
- 1 April 2014 – Common Good, Trust and Surplus Properties
- 1 April 2013 – Planning & Economic Development, New West Linton Primary School and Surplus Properties
- 1 April 2012 – Education & Lifelong Learning and Surplus Properties

Education & Lifelong Learning Properties will be revalued as at 1 April 2017 with the resulting adjustments incorporated into the 2017/18 accounts of the Council.

| | Property Plant & Equipment | | | | | Heritage Assets £'000 | Total Assets £'000 |
|--|----------------------------|---------------|----------------|---------------------------|----------------|--------------------------|-----------------------|
| | Other Land & Buildings | VPFE | Infrastructure | Assets under Construction | Surplus Assets | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | | |
| Carried at Historical Cost | 86,833 | 53,519 | 213,118 | 27,259 | (2,544) | 1,036 | 379,221 |
| New Certified Valuation | | | | | | | |
| 1st April 2016 | 6,127 | - | - | - | 428 | - | 6,555 |
| 1st April 2015 | 7,742 | 273 | 89 | - | 234 | - | 8,338 |
| 1st April 2014 | - | - | - | - | 339 | - | 339 |
| 1st April 2013 | 9,618 | - | 9 | - | 340 | - | 9,967 |
| Prior to & Including 1st April 2012 | 232,841 | - | - | - | 5,229 | - | 238,070 |
| Gross book value (GBV) at 31 March 2017 | 343,161 | 53,792 | 213,216 | 27,259 | 4,026 | 1,036 | 642,490 |

Notes to the Core Financial Statements

Note 13 Heritage Assets

| | Museum Collection £'000 | Fine Arts Collection £'000 | Monuments, Memorials & Statues £'000 | Totals Tangible Fixed Assets £'000 | Total Heritage Assets £'000 |
|------------------------------------|----------------------------|-------------------------------|---|--|--------------------------------------|
| Cost or Valuation at 31 March 2015 | 161 | 771 | 82 | 1,014 | 1,014 |
| Additions | - | - | - | - | - |
| Cost or Valuation at 31 March 2016 | 161 | 771 | 82 | 1,014 | 1,014 |
| Prior Year Adjustment | - | - | 22 | 22 | 22 |
| Additions | - | - | - | - | - |
| Cost or Valuation at 31 March 2017 | 161 | 771 | 104 | 1,036 | 1,036 |

There were no revaluations of heritage assets during the year.

The Council accepts the general principle that it is its responsibility to ensure to the best of its ability that all of the Collections in its care are adequately housed, professionally cared for, conserved and documented in line with their cultural and historic importance to the Communities of the Scottish Borders. The Collection Policy approved in September 2010 can be obtained from the Education & Lifelong Learning Department of the Council.

Museum Collection

This collection is held for display in the various Museum Service venues throughout the Scottish Borders. Those items not on display are held in secure store in various locations.

Fine Arts Collection

This collection is on display at a number of Council owned locations in the Scottish Borders and through loan at other locations containing National Collections. It comprises pictures by leading Border Artists including Tom Scott and Anne Redpath and pictures of Border subjects.

Archive Centre Collection

The collecting policy for the papers and recordings in these growing collections is set out on the Heritage Hub website and a full index of papers held is available at the Archive Centre. All of the material is available for public access and relates to Scottish Borders families, locations and institutions.

Monuments, Memorials and Statues Collection

This collection is recorded in the Property & Facilities Service of the Chief Executive's Department and includes the numerous War Memorials throughout the Borders, the monuments on Council land and the statues located in the parks and streets of the villages and towns of the Borders.

Notes to the Core Financial Statements

Note 14 Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounts for as part of the hardware item of Property, Plant and Equipment. Intangible assets in the form of purchased software are amortised on a straight line basis over the estimated useful life of the asset, which is estimated at up to five years.

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--|------------------|
| 3,550 | Gross book value (GBV) at 31 March | 1,825 |
| - | Prior Period Adj | - |
| 199 | Expenditure in the year | 10 |
| (46) | Impairments | - |
| (1,878) | Disposals | (203) |
| 1,825 | Gross book value (GBV) at 31 March | 1,632 |
| (3,255) | Cumulative amortisation at 31 March | (1,595) |
| (218) | Amortisation for the year | (188) |
| 1,878 | Disposals | 203 |
| (1,595) | Cumulative amortisation at 31 March | (1,580) |
| 230 | Net book value at 31 March | 52 |

There were no revaluations of intangible assets in 2016/17.

Carbon Reduction Commitment allowances purchased for future years responsibilities are shown as current intangible assets. When the allowances are surrendered to the CRC Registry, the current intangible asset is reduced by the allowances surrendered with the liability (shown within provisions on page 75) being decreased.

Note 15 Assets Held for Sale

The Council had no assets held for sale in 2015/16 or 2016/17.

Note 16 Private Finance Initiatives and Similar Contracts

During 2006/07 the Council entered into a Public Private Partnership (PPP) for the provision of new secondary schools in Earlston, Duns and Eyemouth. These assets are recognised on the Council's Balance Sheet.

The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PPP contract at 31 March 2017 are as follows:

| | Repayment of liability and Service Charge | Interest | Total |
|--|---|---------------|----------------|
| | £'000 | £'000 | £'000 |
| Payable in 2017/18 | 6,024 | 2,661 | 8,685 |
| Payable within two to five years | 26,012 | 9,827 | 35,839 |
| Payable within six to ten years | 39,832 | 10,244 | 50,076 |
| Payable within eleven to fifteen years | 49,014 | 7,642 | 56,656 |
| Payable within sixteen to twenty years | 60,109 | 3,992 | 64,101 |
| Payable within twenty one to twenty five years | 22,865 | 374 | 23,239 |
| Total | 203,856 | 34,740 | 238,596 |

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure they incurred and interest payable.

Notes to the Core Financial Statements

Note 17 Leases

Council as Lessee

Finance Leases

The net book value of assets held under finance leases at the Balance Sheet date is as follows:

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------|------------------|
| | Net Asset Value | |
| 51,783 | Land and buildings | 50,467 |
| 51,783 | | 50,467 |

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The balances shown under Land and Buildings below relate entirely to the Council's PPP arrangement for the provision of three secondary schools, as detailed in Note 16. The minimum lease payments are made up of the following amounts:

| Land & Buildings 2015/16 £'000 | | Land & Buildings 2016/17 £'000 |
|--------------------------------------|--|--------------------------------------|
| | Finance Lease Liabilities | |
| 1,816 | Not later than 1 year | 1,692 |
| 6,445 | Later than 1 year and not later than 5 years | 6,649 |
| 46,419 | Later than 5 years | 44,603 |
| | Finance Costs Payable in Future Years | |
| 2,743 | Not later than 1 year | 2,661 |
| 10,144 | Later than 1 year and not later than 5 years | 9,827 |
| 24,542 | Later than 5 years | 22,252 |
| 92,109 | Minimum Lease Payments | 87,684 |

The contingent rental figure, recognised as an expense in 2016/17 in respect of the Council's PPP arrangements, was £0.94m (2015/16 £0.84m).

Operating Leases

The future minimum lease payments due under non-cancellable leases in future years are:

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--|------------------|
| 94 | Not later than 1 year | 89 |
| 38 | Later than 1 year and not later than 5 years | 10 |
| 132 | Total | 99 |

Notes to the Core Financial Statements

Council as Lessor

Finance Leases

The Council has no finance leases as lessor.

Operating Leases

The Council leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses

The future minimum lease payments receivable under non-cancellable leases in future years are:

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| 1,566 | Not later than one year | 1,667 |
| 1,837 | Later than one year and not later than five years | 1,633 |
| 6,667 | Later than five years | 6,561 |
| 10,070 | Total | 9,861 |

Note 18 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it.

| 2015/16 £'000 | | 2016/17 £'000 | |
|------------------|--|------------------|----------------|
| 260,287 | Opening capital financing requirement | | 262,930 |
| | Capital Investment | | |
| 1,357 | Consent to Borrow | 10,005 | |
| 44,612 | Property, plant and equipment | 51,881 | |
| 199 | Intangible assets | 10 | 61,896 |
| | Sources of Finance | | |
| (1,524) | Capital Receipts | (1,273) | |
| (31,887) | Government grants and other contributions | (26,206) | |
| - | - NHT Repayment of Principal | - | |
| (10,114) | Loans fund repayments | (10,202) | (37,681) |
| 262,930 | Closing Capital Financing Requirement | | 287,145 |

Notes to the Core Financial Statements

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| | Explanation of Movements in Year | |
| | Increase in underlying need to borrow (supported by government financial assistance) | |
| 2,643 | Increase/(Decrease) in underlying need to borrow (not supported by government financial assistance) | 24,215 |
| 2,643 | Increase in capital financing requirement | 24,215 |

Note 19 Termination Benefits

During 2016/17 the Council terminated, or had agreed to terminate by the Balance Sheet date, the contracts of 23 employees, incurring liabilities of £0.431m - see the Remuneration Report for further detail on the exit packages granted and total cost per band. These packages are attributable to various areas throughout the Council.

Note 20 Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council makes contributions towards the cost of post-retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two formal pension schemes:

The Local Government Pension Scheme is a funded defined benefit career average salary pension scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. It is administered by the Council in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014, as amended and contracted out of the State Second Pension (This arrangement is no longer applicable from 1st April 2016). The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions.

The Teachers' Pension Scheme is a defined benefit scheme. However it is accounted for as a defined contribution scheme. Further details can be found at Note 21.

Transactions relating to retirement benefits

The Council recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Notes to the Core Financial Statements

| 2015/16 £'000 | Comprehensive Income and Expenditure Statement | 2016/17 £'000 |
|------------------|---|------------------|
| | <i>Cost of Services</i> | |
| 17,407 | Current Service Costs | 15,402 |
| 985 | Past Service Costs, including curtailments | 326 |
| | <i>Financing and Investment Income and Expenditure</i> | |
| 5,580 | Net Interest Expense | 5,175 |
| 23,972 | Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services | 20,903 |
| | Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | |
| | Remeasurement of the net defined benefit liability comprising:- | |
| 10,486 | Return on plan assets (excluding the amount included in the net interest expense) | (82,949) |
| (45,911) | Actuarial gains and losses arising on changes in financial assumptions | 152,499 |
| (301) | Other | (41) |
| (35,726) | Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | 69,509 |
| | <i>Movement in Reserves Statement</i> | |
| 11,246 | Reversal of net charges made for retirement benefits in accordance with the Code | 4,924 |
| | Actual amount charged against the General Fund Balance for pensions in the year | |
| 11,250 | Employers' contributions payable to the scheme | 10,278 |
| 1,476 | Retirement benefits payable to pensioners | 1,499 |

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:-

| 2015/16 £'000 | Pension Assets and Liabilities Recognised in the Balance Sheet | 2016/17 £'000 |
|------------------|--|------------------|
| 627,664 | Present value of the defined benefit obligation | 786,344 |
| (486,072) | Fair value of plan assets | (570,319) |
| 141,592 | Sub total | 216,025 |
| 141,592 | Net liability arising from defined benefit obligation | 216,025 |

Notes to the Core Financial Statements

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability of £216m has a substantial effect on the net worth of the Council as recorded in the Balance Sheet, reducing the overall net value to a liability of £2.236m.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary. Finance will only be required to cover discretionary benefits when the pensions are actually paid.

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

| 2015/16 £'000 | Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets | 2016/17 £'000 |
|------------------|--|------------------|
| 485,013 | Opening Fair Value of Scheme Assets | 486,072 |
| 15,938 | Interest Income | 17,563 |
| | Remeasurement (gains) and losses:- | |
| (10,486) | Return on plan assets, excluding the amount included in the net interest expense | 82,949 |
| (294) | Other | (270) |
| 12,726 | Employer Contributions including unfunded pensions | 11,777 |
| 3,518 | Contributions by Scheme Participants | 3,412 |
| (20,343) | Estimated Benefits Paid | (20,242) |
| - | Settlement prices received/(paid) | (10,942) |
| 486,072 | Closing Fair Value of Scheme Assets | 570,319 |

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| 2015/16 £'000 | Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligations) | 2016/17 £'000 |
|------------------|---|------------------|
| 651,085 | Opening Defined Benefit Obligation | 627,664 |
| 17,407 | Current Service Cost | 15,402 |
| 21,224 | Interest Cost | 22,468 |
| 3,518 | Contributions by Scheme Participants | 3,412 |
| | Remeasurement (gains) and losses:- | |
| (45,911) | Actuarial (gains)/losses arising from changes in financial assumptions | 152,499 |
| (301) | Other | (41) |
| - | Liabilities assumed/(extinguished) on settlements | (15,144) |
| 985 | Past Service Cost | 326 |
| (18,867) | Benefits Paid | (18,743) |
| (1,476) | Unfunded Pension Payments | (1,499) |
| 627,664 | Closing Defined Benefit Obligation | 786,344 |

The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2017.

Notes to the Core Financial Statements

Local Government Pension Scheme assets comprised:-

All scheme assets have quoted prices in active markets other than the managed fund - Multi Assets, which is unquoted.

| 2015/16 £'000 | Local Government Pension Scheme assets comprised: | 2016/17 £'000 |
|------------------|--|------------------|
| 1,272 | Cash and cash equivalents | 1,729 |
| | Equity Instruments | |
| | <i>By industry type</i> | |
| 41,630 | Consumer | 55,099 |
| 43,139 | Manufacturing | 52,346 |
| 6,511 | Energy and utilities | 6,783 |
| 47,689 | Financial Institutions | 63,729 |
| 11,217 | Health and Care | 16,649 |
| 38,060 | Information Technology | 38,579 |
| 188,246 | | 233,185 |
| | Bonds | |
| | <i>By sector</i> | |
| 43,347 | UK Corporate | 46,568 |
| 8,752 | UK Government | 9,002 |
| 52,099 | Other | 55,570 |
| | Investment Funds - Quoted in Active Market | |
| 55,897 | Managed Fund - UK Equities Passive | 68,304 |
| 74,284 | Managed Fund - Global Equities | 93,975 |
| 1,534 | Managed Fund - Smaller Companies | 1,658 |
| 29,896 | Managed Fund - Property | 29,258 |
| 161,611 | | 193,195 |
| | Investment Funds - Not Quoted | |
| 82,844 | | 86,640 |
| 486,072 | Total Assets | 570,319 |

The risks relating to direct equity instruments in the scheme are also analysed by company size below:

| 2015/16 £'000 | Fair Value of Scheme Assets | 2016/17 £'000 |
|------------------|-----------------------------|------------------|
| | Equity instruments: | |
| | <i>By company size</i> | |
| 188,246 | Large capitalisation | 233,185 |

Notes to the Core Financial Statements

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. It should be noted that, in accordance with IAS 102, the discount rate used to calculate the pension liabilities for 2016/17 has reduced by 1% to 2.7% from 3.7% as at 31st March 2016. This has had a major impact on the valuation of the fund liabilities as demonstrated by the increase in the pension liability shown on the balance sheet (Page 39). The liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2014.

The principal assumptions used by the actuary are shown below

| 2015/16 | Basis for Estimating Assets and Liabilities | 2016/17 |
|---------|--|---------|
| | Mortality assumptions | |
| | - longevity at 65 for current pensioners (years) | |
| 22.80 | Men | 22.90 |
| 23.70 | Women | 23.80 |
| | - longevity at 65 for future pensioners (years) | |
| 25.00 | Men | 25.20 |
| 26.00 | Women | 26.10 |
| 3.3% | Rate of inflation - RPI | 3.6% |
| 2.4% | Rate of inflation - CPI | 2.7% |
| 0.9% | Rate of increase in salaries | 1.0% |
| 2.4% | Rate of increase in pensions | 2.7% |
| 3.7% | Rate for discounting scheme liabilities | 2.7% |

The Scheme assets consist of the following categories by proportion and the value of assets held:

| 2015/16 | | Category Analysis of the Scheme Assets as at 31 March 2017 | 2016/17 | |
|------------|----------------|---|------------|----------------|
| % | £'000 | | % | £'000 |
| 66 | 319,960 | Equities | 70 | 397,122 |
| 2 | 8,752 | Gilts | 2 | 9,002 |
| 9 | 43,347 | Other Bonds | 8 | 46,568 |
| 6 | 29,896 | Property | 5 | 29,258 |
| 0 | 1,272 | Cash | 0 | 1,729 |
| 17 | 82,845 | Multi-Asset Fund | 15 | 86,640 |
| 100 | 486,072 | Total | 100 | 570,319 |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Notes to the Core Financial Statements

| Impact on the Defined Benefit Obligation in the Scheme | Increase in Assumption £'000 | Decrease in Assumption £'000 |
|--|---------------------------------|---------------------------------|
| Adjustment to discount rate (increase or decrease 0.1%) | 772,212 | 800,748 |
| Adjustment to long term salary increase (increase or decrease 0.1%) | 787,836 | 784,858 |
| Adjustment to pension increases and deferred revaluation (increase or decrease 0.1%) | 799,242 | 773,683 |
| Adjustment to mortality rating assumption (increase or decrease 1year) | 816,299 | 757,522 |

Note 21 Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme administered by the Scottish Public Pensions Agency, an Executive Agency of the Scottish Government. It provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2016/17 the Council paid £7.331m to teachers' pensions in respect of teachers' retirement benefits, representing 17.2% of pensionable pay (£6.987m and 14.9% up to 31st August 2015 and 17.2% for the remainder in 2015/16). The employer's contribution rate has increased as a result of a revaluation of the Scottish Teacher's pension scheme under the Public Service Pensions Act 2013. There were no contributions remaining payable at the year-end.

The scheme is a defined benefit scheme. Although the scheme is unfunded, teachers' pensions use a notional fund as the basis for calculating the employer's contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of these Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement and added years it has awarded outside of the terms of the teachers' Scheme. In 2016/17 these amounted to £0.704m representing 1.65% of pensionable pay (£0.695m and 1.64% in 2015/16).

Note 22 Scottish Borders Council Pension Fund

Scottish Borders Council manages and administers this Fund which provides pensions and other benefits to its employees and a further 17 employers in the Scottish Borders. As at 31 March 2016 there were 10,432 members.

The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) require an administering authority to publish a separate pension fund annual report. This report will include a Fund Account, Net Asset Statement with supporting notes and disclosures prepared in accordance with proper practices.

A copy of this report is available by contacting Scottish Borders Council, Chief Executive's Department, Council Headquarters, Newtown St Boswells, TD6 0SA.

Note 23 Events After the Balance Sheet Date

There are no known material events after the balance sheet date.

Notes to the Core Financial Statements

Note 24 Inventories

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------------------------|------------------|
| 966 | Balance outstanding at start of year | 1,020 |
| 3,136 | Purchases | 2,801 |
| (3,112) | Recognised as an expense in the year | (2,924) |
| 30 | Written back balances | 9 |
| 1,020 | Balance outstanding at year-end | 906 |

Note 25 Provisions

Provisions are recognised in the accounts when:

- The Council has a present obligation (legal or constructive) as a result of a past event;
- It is probable that a transfer of economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Where it is estimated that a provision will be utilised within 12 months of the Balance Sheet date it is included within current liabilities.

| | Contractual Claims £'000 | Equal Pay £'000 | Voluntary Severance / Early Retirement £'000 | Carbon Reduction Commitment Energy Efficiency Scheme £'000 | Police Potential Clawback £'000 | Asset Decommissioning £'000 | CRC Purchased Allowances £'000 | Total £'000 |
|----------------------------------|-----------------------------|--------------------|---|---|------------------------------------|--------------------------------|-----------------------------------|----------------|
| Balance at 1 April 2016 | (174) | (242) | (277) | (297) | (108) | (4,022) | (676) | (5,796) |
| Additional charges to provisions | (52) | | (339) | (193) | | (138) | | (722) |
| Payments made or released | 105 | 4 | 209 | 265 | 108 | 148 | 265 | 1,104 |
| Balance at 31 March 2017 | (121) | (238) | (407) | (225) | - | (4,012) | (411) | (5,414) |
| Within 12 Months | (121) | (238) | (407) | (225) | - | (32) | (411) | (1,434) |
| Over 12 months | - | - | - | - | - | (3,980) | - | (3,980) |
| Total | (121) | (238) | (407) | (225) | - | (4,012) | (411) | (5,414) |

Note 26 Contingent Liabilities

The following contingent liabilities are noted:

- The Council is a scheme creditor of Municipal Mutual Insurance Limited (MMI). This organisation ceased operations in 1992 and has outstanding claim liabilities that are currently being managed by a board until the liabilities are extinguished. This will remain the position until the Scheme Administrator sees fit to revise the Levy percentage either upwards or downwards as required. As the final costs and timing of any further Council contributions cannot therefore be estimated with reasonable accuracy, no further provision has been made in the financial statements in respect of any potential additional payments at this stage. The remaining contingent liability at the Balance Sheet date in respect of claim payments to date, net of the initial levy paid, is £322,548, though MMI have stated that the first £50,000 of this will be free of any levy. The estimate of outstanding claims relating to the Council that have not yet been paid is £0 at the Balance Sheet date.

Notes to the Core Financial Statements

- There has been a European Court of Justice ruling relating to workers annual leave payment entitlement. The financial implications of this judgement for Scottish Borders Council are unclear at present and therefore the Council, in agreement with our external auditors, have included this as a contingent liability in this years` annual accounts.
- The Council has a commitment to provide Bridge Homes LLP with a loan facility up to a maximum value of £18.8m in order to allow Bridge Homes LLP to deliver affordable housing in the Scottish Borders in line with the Council's Local Housing Strategy.
- The Council has agreed to act as guarantor for SB Cares and Live Borders with regards to their admission to the Scottish Borders Pension Fund. Should either SB Cares or Live Borders be unable to meet their pension obligations, Scottish Borders Council as guarantor would be liable to do so.

Note 27 Contingent Assets

The following Contingent Assets are noted:

- During the year a claim was lodged against Capita Plc by Dumfries and Galloway Council on behalf of itself and Scottish Borders Council for additional expenditure incurred by both Councils due to the delay in the rollout of broadband network and ICT infrastructure across the Scottish Borders and Dumfries and Galloway.

Note 28 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Account in 2016/17.

| 2015/16 Restated £'000 | | 2016/17 £'000 |
|------------------------------|---|------------------|
| | Credited to Taxation and Non Specific Grant Income | |
| (11,007) | General Capital Grant | (11,438) |
| (17,569) | Other Grants | (11,880) |
| (363) | Developer Contributions | (391) |
| (28,939) | Total | (23,709) |
| | Credited to Services | |
| (1,960) | Chief Executive | (2,074) |
| (1,429) | People | (1,624) |
| (1,255) | Place | (942) |
| (29,657) | Other | (30,760) |
| (34,301) | | (35,400) |

Note 29 Financial Instruments

A financial instrument is any contract which gives rise to a financial asset within one and a financial liability within another. The term 'financial instrument' covers both financial liabilities and financial assets.

Notes to the Core Financial Statements

Fair Value Hierarchy:

Under IFRS 13 (Fair Value Measurement) the authority is required to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. To achieve this objective, local authorities are required to follow the fair value hierarchy, which categorises the inputs to valuation techniques used to measure fair value into the three levels as listed below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

Fair Value Hierarchy For Financial Assets And Liabilities That Are Not Measured At Fair Value

| | 31st March 2017 | | | |
|---|--|---|---|------------------|
| | Quoted Prices in active markets for identical assets (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Liabilities | | | | |
| Financial Liabilities held at amortised cost: | | | | |
| PWLB debt | - | (273,197) | - | (273,197) |
| Market Debt | - | (341) | - | (341) |
| Other debt | - | (90,038) | - | (90,038) |
| Total | - | (363,576) | - | (363,576) |

| | 31st March 2016 | | | |
|---|--|---|---|------------------|
| | Quoted Prices in active markets for identical assets (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Liabilities | | | | |
| Financial Liabilities held at amortised cost: | | | | |
| PWLB debt | - | (236,795) | - | (236,795) |
| Market Debt | - | (147) | - | (147) |
| Other debt | - | (71,016) | - | (71,016) |
| Total | - | (307,958) | - | (307,958) |

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Notes to the Core Financial Statements

Financial Instruments - Balances

The following categories of financial instrument are carried on the Council's Balance Sheet:

| | Long-Term | | Current | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 31 March 2016 £'000 | 31 March 2017 £'000 | 31 March 2016 £'000 | 31 March 2017 £'000 |
| Loans and Receivables | | | | |
| Short Term Investments | - | - | - | - |
| Cash and Cash Equivalents | - | - | 16,476 | 7,904 |
| Debtors | 6,412 | 8,467 | 38,402 | 36,609 |
| Total Loans and Receivables | 6,412 | 8,467 | 54,878 | 44,513 |
| Borrowings | | | | |
| Financial Liabilities (principal amount) | (171,996) | (184,215) | - | - |
| Accrued interest | - | - | (3,261) | (12,300) |
| Total Borrowings | (171,996) | (184,215) | (3,261) | (12,300) |
| Other Liabilities | | | | |
| PPP and finance lease liabilities | (52,864) | (51,252) | (1816) | (1,692) |
| Bonds | - | - | (1,420) | (1,460) |
| Total other long-term liabilities | (52,864) | (51,252) | (3,236) | (3,152) |
| Creditors | | | | |
| Short term creditors at amortised cost (excluding Other Liabilities) | - | - | (48,128) | (49,505) |
| Total Creditors | - | - | (48,128) | (49,505) |

Borrowing is taken principally from the Public Works Loans Board (PWLB), but is also taken from the money market, to meet the Council's overall capital financing requirements.

The following table shows a breakdown of borrowing:

| 31 March 2016 | | | 31 March 2017 | |
|------------------|------------|---|------------------|------------|
| £'000 | % | | £'000 | % |
| (44,365) | 25 | Bonds and Mortgages | (44,584) | 23 |
| (127,631) | 73 | Public Works Loan Board | (139,631) | 71 |
| (171,996) | 98 | Long term borrowing (> 1 year) | (184,215) | 94 |
| (3,261) | 2 | Short Term Borrowing repayable within 12 months | (12,300) | 6 |
| (175,257) | 100 | Total Borrowing | (196,515) | 100 |

Notes to the Core Financial Statements

Analysis of Borrowing by Maturity.

| 2016 £'000 | | 2017 £'000 |
|------------------|------------------------|------------------|
| (3,261) | Less than 1 year | (12,300) |
| - | Between 1 and 2 years | (94) |
| (12,979) | Between 2 and 7 years | (14,584) |
| (3,853) | Between 7 and 15 years | (15,582) |
| (155,164) | More than 15 years | (153,955) |
| (175,257) | Total | (196,515) |

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are as follows:

| | 2016/17 | | |
|---|---|--------------------------------------|---------------|
| | Financial Liabilities | Financial Assets | Total |
| | Liabilities measured at amortised cost £'000 | Loans and receivables £'000 | |
| Interest expense | 11,879 | - | 11,879 |
| Interest payable and similar charges | 11,879 | - | 11,879 |
| Interest Income | - | (55) | (55) |
| Interest and investment income | - | (55) | (55) |
| Net (gain) / loss for the year | 11,879 | (55) | 11,824 |

| | 2015/16 | | |
|---|---|--------------------------------------|---------------|
| | Financial Liabilities | Financial Assets | Total |
| | Liabilities measured at amortised cost £'000 | Loans and receivables £'000 | |
| Interest expense | 12,320 | - | 12,320 |
| Interest payable and similar charges | 12,320 | - | 12,320 |
| Interest Income | - | (60) | (60) |
| Interest and investment income | - | (60) | (60) |
| Net (gain) / loss for the year | 12,320 | (60) | 12,260 |

Notes to the Core Financial Statements

Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures
- For loans receivable prevailing benchmark market rates have been used to provide the fair value
- No early repayment or impairment is recognised
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

| | 31 March 2016 | | 31 March 2017 | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £'000 | £'000 | £'000 | £'000 |
| PWLB debt | (130,371) | (236,795) | (142,405) | (273,197) |
| Other debt | (44,886) | (71,163) | (54,110) | (90,379) |
| Total debt | (175,257) | (307,958) | (196,515) | (363,576) |
| Creditors | (51,364) | (51,364) | (52,657) | (52,657) |
| Total financial liabilities | (226,621) | (359,322) | (249,172) | (416,233) |

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

| | 31 March 2016 | | 31 March 2017 | |
|------------------------------------|-----------------|---------------|-----------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £'000 | £'000 | £'000 | £'000 |
| Loans and Receivables | | | | |
| Short Term Investments | - | - | - | - |
| Cash and Cash Equivalents | 16,476 | 16,476 | 7,904 | 7,904 |
| Debtors | 38,402 | 38,402 | 36,609 | 36,609 |
| Total loans and receivables | 54,878 | 54,878 | 44,513 | 44,513 |

All of the financial assets were of less than one year duration and therefore the fair value equates to the amortised cost on the balance sheet.

Note 30 Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council.
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its day to day obligations to make payments.
- **Re-financing risk** – the possibility that the Council may need to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Notes to the Core Financial Statements

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are determined through a legal framework based on the Local Government in Scotland Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment regulations issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice.
- By the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations.
- By approving annually in advance prudential indicators for the following three years limiting:
 - the Council's overall borrowing
 - its maximum and minimum exposures to fixed and variable rates
 - its maximum and minimum exposures to the maturity structure of its debt
 - its maximum annual exposures to investments maturing beyond a year
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government regulations.

These are required to be reported and approved at or before setting the Council's annual Council Tax budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each financial year, as is a mid-year update.

These policies are implemented by a central treasury team. The Council maintains a strategy for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

The annual Treasury Management Strategy for 2016/17 which incorporates the prudential indicators was approved by the Council on 9 February 2017. The key issues within the strategy were:

- The Authorised Limit for 2016/17 was set at £343.6m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £285.0m. This is the expected level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £285.0m and £99.8m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt were as follows:

| Period | Minimum | Maximum |
|-----------------|---------|---------|
| Under 12 months | 0% | 20% |
| 1 to 2 years | 0% | 20% |
| 2 to 5 years | 0% | 20% |
| 5 to 10 years | 0% | 20% |
| Over 10 years | 20% | 100% |

Notes to the Core Financial Statements

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch,

Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution located in each category.

The credit criteria in respect of financial assets held by the Council are detailed below

The Council uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2016/17 was approved by the Council on 9 February 2017 and is available on the Council's website: <http://www.scotborders.gov.uk/>

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2017 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses for non-performance by any of its counterparties in relation to its deposits.

Liquidity Risk

Liquidity risk is the risk that the Council may not have sufficient cash available to meet its day to day obligation to make payments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures that sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council

Notes to the Core Financial Statements

approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt, and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, together with the maximum and minimum limits for fixed interest rates maturing in each period, as approved by the Council in the Treasury Management Strategy on 9 February 2017:

| | Approved Minimum Limits £'000 | Approved Minimum Limits % | Approved Maximum Limits £'000 | Approved Maximum Limits % | Actual 31M arch 2016 £'000 | Actual 31M arch 2017 £'000 |
|---------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|----------------------------------|
| Less than one year | | | 63,650 | 20 | 3,261 | 12,300 |
| Between one and two years | | | 63,650 | 20 | 0 | 94 |
| Between two and seven years | | | 63,650 | 20 | 12,979 | 14,584 |
| Between seven and fifteen years | | | 63,650 | 20 | 3,853 | 15,582 |
| More than fifteen years | 50,220 | 20 | 254,600 | 80 | 155,164 | 153,955 |
| Total | | | | | 175,257 | 196,515 |

Market Risk

There are three main market risks to which the Council is exposed:

(i) **Interest Rate Risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances).
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise, and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. Similarly the drawing of longer term fixed rates borrowing would be postponed.

Notes to the Core Financial Statements

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

| | £'000 |
|---|--------|
| Increase in interest receivable on variable rate investment | (21) |
| Decrease in fair value of fixed rate borrowing liabilities (No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure) | 64,057 |

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. However, given the low interest rates currently available on deposits, it may simply mean then that no interest would be available. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

- (ii) **Price Risk** - The Council, excluding the Pension Fund, does not generally invest in equity shares or marketable bonds.
- (iii) **Foreign Exchange Risk** - The Council has no financial assets or liabilities denominated in foreign currencies at the Balance Sheet date. It therefore has no exposure to loss arising from movements in exchange rates.

Debtor and Creditor Analysis

The Councils short term debtor and creditor balances can be categorised as follows:

Debtors

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---------------------------------------|------------------|
| 5,919 | Central government bodies | 3,621 |
| 193 | Other local authorities | 136 |
| 2,376 | NHS bodies | 3,671 |
| 979 | Public Corporations and Trading Funds | 1,172 |
| 38,460 | Bodies External to General Government | 38,159 |
| 47,927 | | 46,759 |

Creditors

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---------------------------------------|------------------|
| (3,903) | Central government bodies | (3,299) |
| (2) | Other local authorities | - |
| (106) | NHS Bodies | (2) |
| (1,764) | Public Corporations and Trading Funds | (1,870) |
| (45,589) | Bodies External to General Government | (47,486) |
| (51,364) | | (52,657) |

Notes to the Core Financial Statements

Note 31 Movement in Reserves

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

| | Balance as at 31 March 2016 | Transfers between reserves and funds | Gains or Losses for the Year | Balance as at 31 March 2017 |
|--|--------------------------------|---|------------------------------------|--------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Usable Reserves | | | | |
| General Fund Balances | (23,163) | (475) | 5,344 | (18,294) |
| Capital Fund | (6,578) | 57 | - | (6,521) |
| Property Maintenance Fund | (102) | 102 | - | (0) |
| Insurance Fund | (1,321) | 196 | - | (1,125) |
| Unusable Reserves | | | | |
| Capital Adjustment Account | (118,459) | (8,163) | (480) | (127,102) |
| Financial Instruments Adjustment Account | 5,189 | (209) | - | 4,980 |
| Revaluation Reserve | (70,201) | 3,398 | (5,274) | (72,079) |
| Pensions Reserve | 141,592 | 4,924 | 69,509 | 216,025 |
| STACA Statutory Mitigation Acct | 6,182 | 170 | - | 6,352 |
| Total | (66,861) | 0 | 69,099 | 2,236 |

Notes to the Core Financial Statements

Adjustments Between Accounting Basis And Capital Funding Basis Under Regulations

This details the adjustments that are made to the Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure.

A summary of all reserves movements are shown below:

Adjustments between accounting basis & funding basis under regulations 2015/16

| | General Fund Balance | Capital Fund | Property Maintenance Fund | Insurance Fund | Total Usable Reserves | Unusable Reserves | Total Authority Reserves | Notes |
|--|-------------------------|--------------|---------------------------------|-------------------|-----------------------------|----------------------|--------------------------------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Charges for depreciation & amortisation of non-current assets | (21,247) | - | - | - | (21,247) | 21,247 | - | 12 & 14 |
| Impairment losses (charged to CI&ES) | (1,126) | - | - | - | (1,126) | 1,126 | - | |
| Revaluation Losses | (7,754) | - | - | - | (7,754) | 7,754 | - | |
| Capital grants and contributions applied | 28,939 | - | - | - | 28,939 | (28,939) | - | 28 |
| Employee Statutory Adjustments | 1,008 | - | - | - | 1,008 | (1,008) | - | |
| Profit/(Loss) on disposal of assets | (651) | (1,263) | - | - | (1,914) | 1,914 | - | |
| Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements | 206 | - | - | - | 206 | (206) | - | |
| Net retirement charges per IAS 19 | (22,496) | - | - | - | (22,496) | 22,496 | - | |
| Loans Fund principal repayments and Statutory premia | 10,114 | - | - | - | 10,114 | (10,114) | - | |
| Capital Expenditure charged to General Fund balance | 531 | - | - | - | 531 | (531) | - | |
| Employers contribution payable to Pension Fund | 11,250 | - | - | - | 11,250 | (11,250) | - | |
| Net Transfers to or (from) other reserves | 1,841 | 2,237 | (63) | (7) | 4,007 | (4,007) | - | |
| Total in year adjustments | 615 | 974 | (63) | (7) | 1,518 | (1,518) | - | |

Notes to the Core Financial Statements

Adjustments between accounting basis & funding basis under regulations 2016/17

| | General Fund Balance | Capital Fund | Property Maintenance Fund | Insurance Fund | Total Usable Reserves | Unusable Reserves | Total Authority Reserves | Notes |
|--|----------------------|--------------|---------------------------|----------------|-----------------------|-------------------|--------------------------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Charges for depreciation & amortisation of non-current assets | (21,971) | - | - | - | (21,971) | 21,971 | - | 12 & 14 |
| Impairment Losses (charged to CI&ES) | (1,199) | - | - | - | (1,199) | 1,199 | - | |
| Revaluation Losses | (463) | - | - | - | (463) | 463 | - | |
| Capital grants and contributions applied | 23,709 | - | - | - | 23,709 | (23,709) | - | 28 |
| Employee Statutory Adjustments | (170) | - | - | - | (170) | 170 | - | |
| Profit/(Loss) on disposal of assets | (18) | (1,581) | - | - | (1,599) | 1,599 | - | |
| Revenue Exp Funded From Capital under Statute | (7,748) | - | - | - | (7,748) | 7,748 | - | |
| Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements | 207 | - | - | - | 207 | (207) | - | |
| Net retirement charges per IAS 19 | (15,202) | - | - | - | (15,202) | 15,202 | - | |
| Loans Fund principal repayments and Statutory premia | 10,203 | - | - | - | 10,203 | (10,203) | - | |
| Capital Expenditure charged to General Fund balance | 146 | - | - | - | 146 | (146) | - | |
| Employers contribution payable to Pension Fund | 10,278 | - | - | - | 10,278 | (10,278) | - | |
| Net Transfers to or (from) other reserves | 1,753 | 1,640 | 102 | 196 | 3,691 | (3,691) | - | |
| Total in year adjustments | (475) | 58 | 102 | 196 | (118) | 118 | - | |

Notes to the Core Financial Statements

Usable Reserves

Usable reserves are those that can be applied to fund expenditure or reduce the requirement to raise local taxation.

The General Fund Balances are further analysed as follows:

| 2015/16 Restated £'000 | Analysis as at 31 March | 2016/17 £'000 |
|------------------------------|-------------------------------------|------------------|
| | Earmarked Reserves | |
| (1,906) | People - Devolved School Management | (1,690) |
| | Specific Departmental Reserves | |
| (986) | Chief Executive | (160) |
| (1,817) | People | (504) |
| (705) | Place | (296) |
| (1,655) | Other | (1,099) |
| (1,676) | Revenue Support Grant / Council Tax | (534) |
| (1,618) | 2nd Homes Council Tax | (2,272) |
| (1,500) | Treasury Reserve | - |
| (11,863) | | (6,555) |
| (11,300) | Non-Earmarked Reserve | (11,739) |
| (23,163) | Total General Fund Reserve | (18,294) |

Unusable Reserves

Unusable reserves are those that the Council is not able to use to provide services

Capital Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Financial Instruments Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Revaluation Reserve

The Revaluation Reserve contains the gains made by an Authority arising from increases in the value of its Property Plant and Equipment. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account

Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

STACA Statutory Mitigation Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Notes to the Core Financial Statements

Note 32 Cash Flow

| 2015/16 | | 2016/17 |
|-----------------|--|-----------------|
| £'000 | Reconciliation to General Fund Surplus | £'000 |
| (4,786) | Net (Surplus) or deficit on the provision of services | 5,343 |
| | Adjustments to (surplus) or deficit on the provision of services for non cash movements | |
| (21,029) | Depreciation | (21,783) |
| (8,880) | Impairment & Revaluation Loss through I & E | (1,662) |
| (218) | Amortisation of intangible assets | (188) |
| (11,246) | Movement in pension liability | (4,924) |
| (652) | Gain/Loss on carrying amounts of assets disposed | (18) |
| 54 | Net movement in inventories charged to I & E | (114) |
| 9,607 | Net movement in debtors charged to I & E | 258 |
| (5,129) | Net movement in creditors charged to I & E | 5,052 |
| (10) | Net movement in provisions charged to I & E | 107 |
| (37,503) | | (23,272) |
| | Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities | |
| 28,939 | Capital grants received | 23,709 |
| (736) | Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E | 181 |
| 28,203 | | 23,890 |
| (14,086) | Net Cash Outflow / (Inflow) from Operating Activities | 5,961 |

Note 33

Impairment Losses

During 2016/17 SBC recognised a net impairment loss (including negative revaluations) of £3.183m (£9.187m in 2015/16). A net impairment cost of £1.662m has been charged to the Comprehensive Income and Expenditure Statement and shown within the Net Cost of Services.

Note 34

Cash and Cash Equivalents

The balance of the cash and cash equivalents is made up of the following elements:

| 2015/16 | | 2016/17 |
|---------------|-----------------------|--------------|
| £'000 | | £'000 |
| 57 | Cash held by officers | 52 |
| 4,939 | Bank current accounts | 5,772 |
| 11,480 | Short term deposits | 2,080 |
| 16,476 | Total | 7,904 |

Supplementary Financial Statements

Council Tax Income Account

| 2015/16 | | | 2016/17 | |
|---------|----------|--|---------|-----------------|
| £'000 | £'000 | | £'000 | £'000 |
| | (57,679) | Gross Charges Levied | | (58,004) |
| 5,180 | | Less: Benefits | 4,928 | |
| 5,180 | | | 4,928 | |
| 5,179 | | Discounts | 4,579 | |
| 634 | | Provision for bad debts | 645 | |
| 93 | | Miscellaneous | 10 | |
| | 11,085 | | | 10,162 |
| | (46,593) | | | (47,842) |
| | (46,593) | Total Income Credited to the Comprehensive Income & Expenditure Statement | | (47,842) |

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2016

| Band | Number of Properties | Proportion | Band D Equivalent | Council Tax 2016/17 £ |
|---|----------------------|------------|-------------------|-----------------------|
| A | 16,568 | 6/9 | 11,045 | 722.67 |
| B | 12,743 | 7/9 | 9,911 | 843.11 |
| C | 7,000 | 8/9 | 6,222 | 963.56 |
| D | 5,891 | 9/9 | 5,891 | 1,084.00 |
| E | 6,364 | 11/9 | 7,778 | 1,324.89 |
| F | 4,723 | 13/9 | 6,822 | 1,565.78 |
| G | 4,366 | 15/9 | 7,277 | 1,806.67 |
| H | 455 | 18/9 | 910 | 2,168.00 |
| Total | 58,110 | | 55,856 | |
| Less : Reductions for estimated discounts, exemptions, reliefs, rebates, etc. and non-collection | | | (12,247) | |
| Estimated net income from a Council Tax of £1 for 2016/17 | | | £43,609 | |

Note 2 Water and Waste Water Charges

The Council is required to bill and collect water and waste water charges on domestic properties along with Council Tax as part of an agency agreement. These charges were determined by Scottish Water and for 2016/17 the Band D charges were £196.20 for water and £227.70 for waste water.

Supplementary Financial Statements

Non-Domestic Rate Income Account

| 2015/16 | | | 2016/17 | |
|---------|-----------------|--|---------|-----------------|
| £'000 | £'000 | | £'000 | £'000 |
| | (39,857) | Gross Rates Levied & Contribution in Lieu | | (42,732) |
| 8,629 | | Less: Reliefs and Other Deductions | 9,454 | |
| 375 | | Write-offs of uncollectable debts & allowance for impairment | 399 | |
| | 9,005 | Interest paid on overpaid rates | | 9,853 |
| | (30,853) | | | (32,879) |
| | (135) | Net General Fund expenditure on discretionary reliefs | | (155) |
| | (30,988) | Net Non-Domestic Rate Income | | (33,034) |
| | (170) | Adjustment to Previous Years National Non-Domestic Rates | | 0 |
| | (31,158) | Contribution to National Pool | | (33,034) |
| | 33,707 | Distribution received from National Pool | | 33,594 |
| | (33,707) | Income Credited to the Comprehensive Income & Expenditure Statement | | (33,594) |

Notes to the Non-Domestic Rate Income Account

Note 1 Rateable Subjects at 31 March 2017

| Classification | Number | Rateable Value £'000 |
|--|--------------|-------------------------|
| Shops | 1,241 | 20,736 |
| Public Houses | 89 | 1,633 |
| Offices including Banks | 913 | 8,429 |
| Hotels, Boarding Houses, etc | 137 | 4,079 |
| Industrial and Freight transport | 1,939 | 32,437 |
| Leisure, Entertainment, Caravan sites, etc | 1,025 | 6,030 |
| Garages and Petrol Stations | 221 | 2,289 |
| Cultural and Sporting | 141 | 1,124 |
| Education and Training | 103 | 9,859 |
| Public Service | 432 | 5,719 |
| Communications | 7 | 16 |
| Quarries, Mines, etc | 12 | 415 |
| Petrochemical | 5 | 1,310 |
| Religious | 290 | 1,259 |
| Health and Medical | 98 | 4,059 |
| Care Facilities | 91 | 2,056 |
| Other | 547 | 2,191 |
| Advertising | 9 | 16 |
| Undertakings | 24 | 2,954 |
| Total | 7,324 | 106,611 |

Note 2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2016/17 was:
 48.4p for properties with a rateable value up to £35,000
 A 2.6p supplement is charged for properties with a rateable value of over £35,000

Trust Funds

Scottish Borders Council administers numerous charitable trusts and bequests. Elected members of the Council act as Trustees of these charities. Those registered with the Office of the Scottish Charity Regulator (OSCR) are detailed below:

- **Scottish Borders Council Education Trust**
- **Scottish Borders Council Community Enhancement Trust**
- **Scottish Borders Council Welfare Trust**

These three charities were registered with OSCR on April 1 2014 and each contain funds that are restricted by purpose and geographical area.

- **The Scottish Borders Council Charitable Trust** contains 76 separate trusts and bequests will be considered for amalgamation into the above three SBC trusts during 2017/18.
- **The Ormiston Trust for Institute** and
- **The Thomas Howden Wildlife Award Fund** remain separately registered trusts with OSCR.

All OSCR registered charities are subject to audit, in line with OSCR requirements and a full set of financial statements compliant with those requirements are published separately. The Council also administers a further 177 non registered charities, which will also be considered for inclusion into the SBC Education, Community Enhancement and Welfare Trusts in 2017/18.

A summary Income and Expenditure Statement and Balance Sheet are detailed below, recognising all registered and unregistered charities administered by the Council.

Comprehensive Income & Expenditure Statements

| 2015/16 | | Charitable | Other | 2016/17 |
|--------------|--|--------------|--------------|----------------|
| £'000 | | £'000 | £'000 | Total £'000 |
| | Income | | | |
| (64) | Dividends and Interest | (38) | (30) | (68) |
| (55) | Rents | - | (42) | (42) |
| (4) | Donations & Grants | - | (10) | (10) |
| 0 | Unrealised Gain on Investments | - | 9 | 9 |
| | Expenditure | | | |
| 9 | Administration | - | - | - |
| 37 | Grants to Beneficiaries | 9 | 192 | 201 |
| 84 | Depreciation | 26 | 71 | 97 |
| 7 | (Surplus) / Deficit for the Year | (3) | 190 | 187 |
| (826) | (Surplus) brought forward | (329) | (491) | (820) |
| (84) | Funding (brought forward/carried forward) to Revaluation Reserve | (26) | (71) | (97) |
| 3 | Transfer to Capital Reserve | - | (128) | (128) |
| 80 | Movement between Revenue & Capital Reserves | - | (10) | (10) |
| (820) | (Surplus) carry forward | (358) | (510) | (868) |

Trust Funds

Balance Sheet

| 2015/16 | | Charitable | Other | 2016/17 |
|----------------|------------------------|----------------|----------------|----------------|
| £'000 | | £'000 | £'000 | Total £'000 |
| | Non-current Assets | | | |
| 1688 | Land and Buildings | 216 | 1,572 | 1,788 |
| 2,010 | Investments | 737 | 1,136 | 1,873 |
| 2 | Long term Loan | - | 1 | 1 |
| | Current Assets | | | |
| 271 | Short Term Investments | 74 | 270 | 344 |
| 22 | Sundry Debtors | - | - | - |
| | Current Liabilities | | | |
| (15) | Sundry Creditors | - | (16) | (16) |
| 3,978 | Net Assets | 1,027 | 2,963 | 3,990 |
| | Financed by | | | |
| (820) | Revenue Reserve | (358) | (510) | (868) |
| (1,538) | Capital Reserve | (506) | (899) | (1,405) |
| (1,620) | Revaluation Reserve | (163) | (1,554) | (1,717) |
| (3,978) | | (1,027) | (2,963) | (3,990) |

Common Good Funds

The Council administers the Common Good Funds for nine towns within its area. The statements below give the income and expenditure for the year and the assets and liabilities at 31 March 2017, for each of the funds. The accounting policies applied are those as set out in pages 42 to 53.

As per the Council's Common Good Strategy all funds are invested in the Newtown Real Return Fund.

The Common Good Financial Statements are presented in line with previous years. A separate set of financial statements is published compliant with OSCR requirements and subject to full external audit.

Comprehensive Income and Expenditure Statements

| Total 2015/16 £'000 | | 2016/17 | | | | | | | | | Total £'000 |
|---------------------------|--|---------------|---------------------|-----------------|-----------------------|-------------------|----------------|-----------------|------------------|------------------|----------------|
| | | Duns £'000 | Galashiels £'000 | Hawick £'000 | Innerleithen £'000 | Jedburgh £'000 | Kelso £'000 | Lauder £'000 | Peebles £'000 | Selkirk £'000 | |
| | Income | | | | | | | | | | |
| (238) | Fees and Charges | (1) | - | (107) | - | - | - | (12) | (50) | (70) | (240) |
| (55) | Investment Income | - | (4) | (11) | - | (25) | (7) | (6) | (10) | (5) | (68) |
| (105) | Grant Income | (1) | (129) | (6) | - | (1) | (1) | (6) | (5) | (5) | (154) |
| (398) | | (2) | (133) | (124) | - | (26) | (8) | (24) | (65) | (80) | (462) |
| | Expenditure | | | | | | | | | | |
| 124 | Property Costs | (1) | - | 73 | - | - | - | 6 | 11 | 22 | 111 |
| 272 | Depreciation | - | 36 | 40 | 17 | 12 | 43 | 11 | 37 | 76 | 272 |
| 49 | Administrative Costs | 2 | 2 | 11 | - | 4 | 2 | 10 | 8 | 10 | 49 |
| 88 | Donations and Contributions | - | - | 37 | - | 76 | 5 | 2 | 24 | 27 | 171 |
| 533 | | 1 | 38 | 161 | 17 | 92 | 50 | 29 | 80 | 135 | 603 |
| 135 | (Surplus) / Deficit | (1) | (95) | 37 | 17 | 66 | 42 | 5 | 15 | 55 | 141 |
| (46) | (Surplus) / Deficit brought forward | (17) | (7) | (128) | - | (103) | (36) | (36) | (65) | (116) | (508) |
| (272) | Funding (from)/to Revaluation Reserve | - | (36) | (40) | (17) | (12) | (43) | (11) | (37) | (76) | (272) |
| 45 | Transfer (from)/to Capital Reserve | - | 128 | 100 | - | - | - | 10 | 52 | 55 | 345 |
| (508) | (Surplus)/Deficit carried forward | (18) | (10) | (31) | - | (49) | (37) | (32) | (35) | (82) | (294) |

Common Good Funds

Balance Sheets

| Total 2015/16 £'000 | | 2016/17 | | | | | | | | | |
|---------------------------|--------------------------------------|---------------|---------------------|-----------------|-----------------------|-------------------|----------------|-----------------|------------------|------------------|-----------------|
| | | Duns £'000 | Galashiels £'000 | Hawick £'000 | Innerleithen £'000 | Jedburgh £'000 | Kelso £'000 | Lauder £'000 | Peebles £'000 | Selkirk £'000 | Total £'000 |
| | Non-current Assets | | | | | | | | | | |
| 10,996 | Land & Buildings | - | 588 | 3,596 | 290 | 465 | 779 | 1,005 | 839 | 3,159 | 10,721 |
| 26 | Heritage Assets | - | - | 3 | - | - | 19 | - | 2 | 2 | 26 |
| 2,362 | Investments | - | 154 | 473 | - | 937 | 254 | 258 | 435 | 189 | 2,700 |
| 60 | Long Term Loan to Third Party | - | - | - | - | 39 | - | 9 | - | - | 48 |
| | Current Assets | | | | | | | | | | |
| 21 | Sundry Debtors | - | - | 4 | - | 5 | - | 7 | 2 | 2 | 20 |
| 475 | Short Term Investments | 18 | 10 | 38 | - | 6 | 37 | 21 | 41 | 83 | 254 |
| | Current Liabilities | | | | | | | | | | |
| (45) | Sundry Creditors | - | - | (11) | - | - | - | (1) | (8) | (3) | (23) |
| 13,895 | Net Assets | 18 | 752 | 4,103 | 290 | 1,452 | 1,089 | 1,299 | 1,311 | 3,432 | 13,746 |
| | Financed by | | | | | | | | | | |
| (508) | Revenue Reserve | (18) | (10) | (31) | - | (49) | (37) | (32) | (35) | (82) | (294) |
| (2,845) | Capital Reserve | - | (307) | (609) | (135) | (940) | (254) | (264) | (485) | (190) | (3,184) |
| (10,542) | Revaluation Reserve | - | (435) | (3,463) | (155) | (463) | (798) | (1,003) | (791) | (3,160) | (10,268) |
| (13,895) | Total Reserves | (18) | (752) | (4,103) | (290) | (1,452) | (1,089) | (1,299) | (1,311) | (3,432) | (13,746) |

Group Accounts

Introduction to the Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (the Code) and relevant accounting standards require local authorities to consider all their interests in other organisations and to prepare a full set of group financial statements where they have material interests in subsidiary and associated entities and joint arrangements. The Local Authority group is defined as the Local Authority and its interests in entities which would be regarded as its subsidiaries or associates or joint arrangements were it subject to the Companies Act. The Code requires that group financial statements include the following statements along with the appropriate notes:

- a Group Movement in Reserves Statement
- a Group Comprehensive Income and Expenditure Statement
- a Group Balance Sheet
- a Group Cash Flow Statement

The Group Accounts and Notes are set out on pages 98 to 108.

For the purposes of consolidation and incorporation within the Local Authority group, the Council has consolidated the following entities:

Subsidiaries

Subsidiary entities are those over which the Council has been deemed to have control. The following bodies have been recognised as subsidiaries of Scottish Borders Council:

- Common Good Funds
- Charitable Trust Funds
- Bridge Homes LLP
- SB Supports LLP
- SB Cares LLP
- Live Borders

The Council is the sole trustee of the Common Good Funds and the Charitable Trust Funds and summary financial results for these entities appear on pages 96 to 103. Bridge Homes LLP, a partnership between the Council and Scottish Futures Trust Investments Ltd, created to invest in residential property and in which the Council is entitled to 99.999% of the profits and equally exposed to 99.999% of the losses, is also treated as a subsidiary body. SB Supports and SB Cares LLP are registered Limited Liability Partnerships between Scottish Borders Council and SBC Nominees, working in partnership to provide adult social care services. The financial statements for Bridge Homes LLP, SB Supports LLP and SB Cares LLP are available from Council Headquarters.

Live Borders, an integrated trust providing culture and leisure services on behalf of Scottish Borders Council was established on 1st April 2016. Services provided by the trust include Arts, Libraries, Archives, Museums, and Galleries, Sport and Leisure facilities previously managed by Borders Sport and Leisure Trust (previously recognised as an Associate) are now also provided by Live Borders. The opening position for the group Balance Sheet and Movement In Reserves Statement for 2016/17 has been restated to reflect this change in recognition.

Live Borders accounts can be obtained from their Headquarters at Melrose Road, Galashiels, TD1 2DU.

Associates

Associate entities are those over which the Council has been deemed to exercise significant influence. The following body has been recognised as an associate of Scottish Borders Council:

- Jedburgh Leisure Facilities Trust

Group Accounts

This organisation manages the delivery of a range of sport and leisure facilities in Jedburgh. The Council pays a management fee to the company and the leisure facilities are owned by the Council and leased to the company. The company is limited by guarantee and has charitable status. The Council is not represented on the Board of Directors. The percentage for consolidation is 39.7% based on the Council's contribution to incoming resources. Jedburgh Leisure Facilities Trust's accounting period is to 31 March and, for the purposes of consolidation, the draft financial statements to 31 March 2017 have been used. The company's draft Statement of Financial Activities shows an operating profit of £0.002m for the year to 31 March 2017 of which £0.001m has been included in the Group Accounts. The company's draft Balance Sheet as at 31 March 2017 shows net assets of £0.008m of which £0.003m has been included in the Group Accounts.

The Trust's accounts can be obtained from their registered office at Oxnam Road, Jedburgh, TD8 6QH.

Joint Arrangements

Joint arrangements can be either joint operations or joint ventures. Joint operations are joint arrangements where the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The following body has been recognised as a Joint Venture.

- Scottish Borders Integration Joint Board

The Council commenced a joint arrangement with NHS Borders to establish The Scottish Borders Health and Social Care Integration Board on 6th February 2016. This is a partnership set up to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016. As there had only been a small amount of staffing expenditure incurred in 2015/16, it was agreed with the council's previous auditors, KPMG, that this would not be consolidated into the Council's Group Accounts as a joint venture (in accordance with IFRS11) until 2016/17.

The boards draft Comprehensive Income & Expenditure Statement show gross expenditure and income of £174.486m for the year of which £34.136m has been consolidated into the Group Accounts. Both the Balance Sheet and Movement In Reserves Statement show a net position of £0 for 2016/17.

The financial statements for the Scottish Borders Integration Joint Board are available from the Council Headquarters.

Group Movement in Reserves Statement

Movement in reserves during 2015/16 - Restated

| | Scottish Borders Council Usable Reserves | Group Entities Usable Reserves | Total Group Usable Reserves | Scottish Borders Council Unusable Reserves | Group Entities Unusable Reserves | Total Group Unusable Reserves | Total Group Reserves |
|------------------------------|--|--------------------------------|-----------------------------|--|----------------------------------|-------------------------------|----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 01/04/2015 | (27,896) | (6,187) | (34,083) | 9,579 | (12,291) | (2,712) | (36,795) |

Movement in reserves during 2015/16

| | | | | | | | |
|--|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total Comprehensive Income & Expenditure | (4,786) | (207) | (4,993) | (43,758) | 498 | (43,260) | (48,253) |
| Adjustments between accounting basis & funding basis under regulations | 1,518 | (356) | 1,162 | (1,518) | 356 | (1,162) | - |
| Increase or Decrease in 2015/16 | (3,268) | (563) | (3,831) | (45,276) | 854 | (44,422) | (48,253) |
| Balance at 31/03/2016 carried forward | (31,164) | (6,750) | (37,914) | (35,697) | (11,437) | (47,134) | (85,048) |

Movement in reserves during 2016/17

| | Scottish Borders Council Usable Reserves | Group Entities Usable Reserves | Total Group Usable Reserves | Scottish Borders Council Unusable Reserves | Group Entities Unusable Reserves | Total Group Unusable Reserves | Total Group Reserves |
|--|--|--------------------------------|-----------------------------|--|----------------------------------|-------------------------------|----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 01/04/2016 | (31,164) | (6,750) | (37,914) | (35,697) | (11,437) | (47,134) | (85,048) |
| Restatement Due To Change In Recognition | | (84) | (84) | | (346) | (346) | (1,160) |
| Restated Balance at 01/04/2016 | (31,164) | (7,564) | (38,728) | (35,697) | (11,783) | (47,480) | (86,208) |

Movement in reserves during 2016/17

| | | | | | | | |
|--|-----------------|----------------|-----------------|---------------|----------------|---------------|-----------------|
| Total Comprehensive Income & Expenditure | 5,343 | (242) | 5,101 | 63,754 | 5,770 | 69,524 | 74,625 |
| Adjustments between accounting basis & funding basis under regulations | (19) | (369) | (488) | 119 | 369 | 488 | - |
| Increase or Decrease in 2016/17 | 5,224 | (611) | 4,613 | 63,873 | 6,139 | 70,012 | 74,625 |
| Balance at 31/03/2017 carried forward | (25,940) | (8,175) | (34,115) | 28,176 | (5,644) | 22,532 | (11,583) |

Group Comprehensive Income and Expenditure Statement

| 2015/16 Restated | | | | 2016/17 | | |
|-------------------|-----------------|-----------------|---|-------------------|------------------|-----------------|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| 36,087 | (3,267) | 32,820 | Chief Executive | 54,644 | (10,776) | 43,868 |
| 188,955 | (17,506) | 171,449 | People | 235,526 | (68,353) | 167,173 |
| 70,822 | (15,363) | 55,459 | Place | 65,393 | (17,919) | 47,474 |
| 34,991 | (31,218) | 3,773 | Other | 35,184 | (32,932) | 2,252 |
| 1,413 | - | 1,413 | Non-Distributed Costs | 4,143 | - | 4,143 |
| 533 | (343) | 190 | Common Good | 603 | (308) | 295 |
| 130 | (59) | 71 | Trust Funds | 298 | (42) | 256 |
| 2,717 | (2,663) | 54 | Share of Operating Results of Associates & Joint Ventures | 34,210 | (34,211) | (1) |
| 335,648 | (70,419) | 265,229 | Services provided by the Council | 430,001 | (164,541) | 265,459 |
| 335,648 | (70,419) | 265,229 | Net Cost of Services | 430,001 | (164,541) | 265,459 |
| 6,600 | (6,698) | (98) | Roads Trading Operation (Surplus)/Deficit (External) | 10,939 | (11,030) | (91) |
| | | | Other Operating Expenditure | | | |
| 1,915 | (1,263) | 652 | (Gain)/Loss on Disposal of Assets | 1,599 | (1,581) | 18 |
| | | | Financing & Investment Income and Expenditure | | | |
| 12,320 | - | 12,320 | Interest Payable & Similar Charges | 11,879 | - | 11,879 |
| - | (148) | (149) | Interest Receivable & Similar Income | - | (205) | (205) |
| 21,224 | (15,644) | 5,580 | Net Interest Expense on the Net Defined Benefit Liability | 22,468 | (17,293) | 5,175 |
| - | - | - | Share of Associates & Joint Ventures Interest Payable | - | - | - |
| - | - | - | Share of Associates & Joint Ventures Interest & Investment Income | - | - | - |
| | | | Taxation and Non-Specific Grant Income | | | |
| - | (178,870) | (178,870) | Revenue Support Grant | - | (170,200) | (170,200) |
| - | (33,707) | (33,707) | Non-Domestic Rates Pool for Scotland | - | (33,594) | (33,594) |
| 11,086 | (57,679) | (46,593) | Council Tax | 10,162 | (58,004) | (47,842) |
| - | (28,939) | (28,939) | Capital Grants and Contributions | - | (23,709) | (23,709) |
| | | (4,575) | (Surplus)/Deficit on Provision of Services | | | 6,890 |

Group Comprehensive Income and Expenditure Statement

| 2015/16 | | | | 2016/17 | | |
|-------------------|--------------|-----------------|--|-------------------|-------|-----------------|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | £'000 | Net Expenditure |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | | (4,575) | (Surplus)/Deficit on Provision of Services | | | 6,890 |
| | | (8,426) | (Surplus)/Deficit on revaluation of Non Current Assets | | | (5,833) |
| | | (353) | Any Other (Gains) Or Losses | | | (1,052) |
| | | (34,903) | Actuarial (gains)/losses on pension assets/liabilities | | | 74,620 |
| | | (43,682) | Other Comprehensive Income and Expenditure | | | 67,735 |
| | | (48,257) | Total Comprehensive Income and Expenditure | | | 74,625 |

Group Balance Sheet

| Restated 2015/16 £'000 | | 2016/17 £'000 |
|------------------------------|---|------------------|
| | Property Plant and Equipment | |
| 318,192 | Other Land and Buildings | 322,933 |
| 15,361 | Vehicle, Plant, Furniture & Equipment | 20,349 |
| 89,035 | Infrastructure | 123,534 |
| 4,116 | Surplus Assets | 3,838 |
| 33,108 | Assets Under Construction | 27,259 |
| 1,040 | Heritage Assets | 1,062 |
| 230 | Intangible Assets | 52 |
| 4,372 | Long Term Investments | 4,572 |
| 1,330 | Investments in Associates & Joint Ventures | 1,053 |
| 4,131 | Long Term Debtors | 3,915 |
| 470,915 | Long Term Assets | 508,567 |
| 676 | Intangible Assets - Current | 42 |
| 0 | Short Term Investments | - |
| 1,051 | Inventories | 1,025 |
| 48,017 | Short Term Debtors | 37,944 |
| (9,525) | less Bad Debt Provision | (10,150) |
| 17,902 | Cash and Cash Equivalents | 13,413 |
| 58,121 | Current Assets | 42,644 |
| (3,261) | Short Term Borrowing | (12,300) |
| (53,192) | Short Term Creditors | (50,393) |
| (1,491) | Provisions | (1,434) |
| (57,944) | Current Liabilities | (64,127) |
| (171,996) | Long Term Borrowing | (184,392) |
| (52,864) | Deferred Liabilities | (51,252) |
| (422) | Liabilities of Associates & Joint Ventures | (1,051) |
| (4,305) | Provisions | (3,980) |
| (13,868) | Capital Grants Receipts in Advance | (11,851) |
| (243,455) | Long Term Liabilities | (252,526) |
| 227,637 | Net Assets excluding pension liability | 234,558 |
| (142,589) | Pension Liability | (222,975) |
| 85,048 | Net Assets/(Liabilities) including pension liability | 11,583 |

Group Balance Sheet

| 2015/16 £'000 | Financed By: | 2016/17 £'000 |
|------------------|---|------------------|
| | Useable Reserves | |
| (6,578) | Capital Fund | (6,521) |
| (23,163) | General Fund Balance | (18,294) |
| (102) | Property Maintenance Fund | - |
| (1,321) | Insurance Fund | (1,125) |
| (6,750) | Share of Group Entities Usable Reserves | (8,175) |
| | Unusable Reserves | |
| (118,459) | Capital Adjustment Account | (127,102) |
| 5,189 | Financial Instruments Adjustment Account | 4,980 |
| (70,201) | Revaluation Reserve | (72,079) |
| 141,592 | Pension Reserve | 216,025 |
| 6,182 | STACA Statutory Mitigation Account | 6,352 |
| (11,437) | Share of Group Entities Unusable Reserves | (5,644) |
| (85,048) | Total Reserves | (11,583) |

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

Group Cash Flow Statement

| Restated 2015/16 £'000 | | 2016/17 £'000 £'000 | |
|------------------------------|---|-----------------------------|-----------------|
| (4,575) | Net (Surplus) or deficit on the provision of services | 6,890 | |
| (57) | Adjustments for associate entities included in the net (surplus) or deficit on the provision of services that are excluded from the group cash flow statement | 1 | |
| (39,580) | Adjustments to net (surplus) or deficit on the provision of services for non cash movements | (28,136) | |
| 28,203 | Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities | 24,020 | |
| (16,009) | Net Cash Flows From Operating Activities | | 2,775 |
| | Investing Activities | | |
| 47,958 | Purchase of PP&E, investment property and intangible assets | 47,065 | |
| (1,263) | Proceeds from PP&E, investment property and intangible assets | (1,581) | |
| 189 | Purchase/(Disposal) of short & long term investments | (73) | |
| (34,682) | Other Items which are Investing Activities | (21,418) | |
| 12,202 | Net Cash Flows from Investing Activities | | 23,993 |
| | Financing Activities | | |
| - | Cash received from loans & other borrowing | (21,314) | |
| 1,462 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 1,612 | |
| 63 | Repayments of short and long term borrowing | 81 | |
| (619) | Other items which are financing activities | (2,439) | |
| 906 | Net Cash Flows from Financing Activities | | (22,060) |
| (2,901) | Net (Increase) or Decrease in Cash and Cash Equivalents | | 4,708 |
| 15,001 | Cash and Cash Equivalents at the beginning of the reporting period | | 18,121 |
| 17,902 | Cash and Cash Equivalents at the end of the reporting period | | 13,413 |
| (2,901) | Movement | | 4,708 |

Notes to the Group Accounts

Note 1 Group Accounting Policies

The Financial Statements in the Group Accounts have been prepared in accordance with the Council's accounting policies set out in pages 42 to 53.

The Council has accounted for its interest in each subsidiary using the acquisition method of accounting. The Council's interest associates and joint ventures has been accounted for using the equity method of accounting. Where applicable, consolidation adjustments have been made to eliminate inter-group transactions.

Note 2 Group Cash Flow

A reconciliation between the Group Income and Expenditure Statement and the revenue activities in the Group Cash Flow Statement is provided in the table below:

| Restated 2015/16 £'000 | | 2016/17 £'000 |
|------------------------------|--|------------------|
| | Reconciliation to General Fund Surplus | |
| (4,575) | Net (Surplus) or deficit on the provision of services | 6,890 |
| (57) | Adjustments for associate entities included in the net (surplus) or deficit on the provision of services that are excluded from the group cash flow statement | 1 |
| | Adjustments to (surplus) or deficit on the provision of services for non cash movements | |
| (21,385) | Depreciation | (22,152) |
| (8,901) | Impairment & Revaluation Loss through I & E | (1,662) |
| (218) | Amortisation of intangible assets | (188) |
| (11,246) | Movement in pension liability | (4,924) |
| (652) | Gain/Loss on carrying amounts of assets disposed | (18) |
| 85 | Net movement in inventories charged to I & E | (40) |
| 10,808 | Net movement in debtors charged to I & E | (131) |
| (8,061) | Net movement in creditors charged to I & E | 872 |
| (10) | Net movement in provisions charged to I & E | 107 |
| (39,580) | | (28,136) |
| | Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities | |
| 28,939 | Capital grants received | 23,838 |
| (736) | Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E | 182 |
| 28,203 | | 24,020 |
| (16,009) | Net Cash Outflow / (Inflow) from Operating Activities | 2,775 |

Note 3 Financial Impact of Group Consolidation

The inclusion of the group entities has an impact on the Council's single entity position on provision of services. The deficit of £5.3m on the Council's single entity Comprehensive Income and Expenditure Statement becomes a group deficit of £6.9m. The Group Balance Sheet position has decreased from a net asset of £84.9m in 2015/16 to £11.6m in 2016/17.

Glossary of Terms

We recognise that financial statements by their nature need to include some technical terms and the purpose of this section is to explain some of the more important ones.

Aggregate External Finance (AEF): this is the term given to the total of funding provided by the Scottish Government. It comprises three parts, which are explained below;

- **Revenue Support Grant (RSG):** this is the largest part of AEF. It is a block grant which helps finance the overall cost of Council services.
- **Non-Domestic Rate Income (NDRI):** local businesses pay rates based on a rateable value determined by the Assessor and a rate poundage determined by the Scottish Government. The Council pays rates levied into a national pool and receives income from the pool based on a formula.
- **Specific Grants:** the final part of AEF. As the name suggests these grants are paid to support specific services/activities and can enable the Scottish Government to more directly influence service provision than with a block grant.

Amortisation: similar to depreciation but applied to intangible assets i.e. the measurement of the value of an asset used during the year.

Budget: the budget sets out what the Council intends to spend and how it will be paid for. Budgets are prepared and approved before the start of a financial year for both revenue and capital expenditure. Each financial year budget is part of a 5 year Revenue or a 10 year Capital Financial Plan.

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated and financed.

Capital Borrowing: this is the element of the Capital Programme not financed by capital and revenue resources (i.e. capital receipts, capital grants and revenue contributions). The capital expenditure will give rise to a borrowing need; however it is important to note that the need may not result in actual external borrowing, and the decision may be taken to finance borrowing from within the Council.

Capital Expenditure: spending on assets of lasting value, whose useful life exceeds the current year. Examples are schools, major road works, improving social work and leisure facilities. Capital expenditure is financed principally from borrowing but can also be funded by capital receipts, grants and revenue contributions (CFCR).

Capital From Current Revenue (CFCR): this is expenditure on capital assets that is financed from the revenue account in the current financial year.

Capital Fund: Established under the Local Government (Scotland) Act 1975. This fund is credited with the receipts of property sales and developer contributions. It can be used to fund capital expenditure or make payments of loan principal.

Capital Grants: grants from bodies such as the European Union and Scottish Government can fund capital projects as can contributions from other organisations.

Capital Receipt: a capital receipt arises when the Council sells a surplus asset, e.g. a piece of land or a building and this can be used to finance further capital expenditure or repay existing debt.

Carrying Amount: the value at which an asset or liability is shown on the Balance Sheet.

Common Good Funds: have been accumulated by former burghs since their foundation from the 12th Century onwards. They are held by the Council as custodian for the benefit of residents of the 9 former burghs, Duns, Innerleithen, Galashiels, Hawick, Jedburgh, Kelso, Lauder, Peebles and Selkirk. They are administered by the Council to have regard to the interest of the inhabitants of the area to which the Common Good formally related.

All of the Common Good Funds are presently registered as a single charity with OSCR.

Glossary of Terms

Component Accounting: where fixed assets are valued and depreciated on the basis of individual components i.e. roof, heating system etc, opposed to one overall value.

Contingent Liability: a possible future financial obligation which is reported as a specific note to the annual accounts because it cannot be judged as probable enough to warrant a provision.

Council Tax: the major part of locally raised revenue income, based on a property being classified into one of eight bands. In the interests of consistency all Councils determine their Council Tax at the Band D level and the charges for properties in all other bands are expressed as a proportion of Band D.

Council Tax Reduction Scheme (CTRS): Replaced Council Tax Benefit which stopped on 1 April 2013 as part of the welfare reform programme. CTRS is a reduction on your council tax that you may be entitled to if you are on a low income. Responsibility for assisting those who need help to pay their Council Tax in Scotland now sits with the Scottish Government and Scottish Local Authorities.

Current Assets: assets of a short-term nature, e.g. short term investments, inventories, short term debtors and cash and cash equivalents.

Current Liabilities: liabilities expected to be due within the next year, e.g. short term creditors, short-term borrowing and provisions.

Depreciation: the measure of the value of a fixed asset used during the year.

Fair Value: is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Instruments Adjustment Account: an account that enables the effects of accounting for financial instruments to be neutral in terms of Council Tax.

General Fund: the principal usable reserve of the Council that covers most areas of activity, the main exclusions being SBc Contracts and the Pension Fund.

Group Accounts: statements that reflect the Council's interest in any subsidiaries, associates and joint ventures.

Heritage Assets: assets preserved in trust for future generations because of their cultural, environmental or historical association. It applies to assets held and maintained by the authority principally for the contribution to knowledge and culture.

IAS19: the International Accounting Standard (IAS) which lays down the disclosure and reporting requirements for Retirement Benefits paid from our Pension Fund.

IFRS: The Council's accounts are governed by International Financial Reporting Standards.

Impairment: an asset is impaired when its carrying amount exceeds its recoverable amount.

Infrastructure: assets of a general and supporting nature, e.g. the roads and bridges network, car parks, pathways, sea defences and water/drainage systems.

Insurance Fund: a fund that meets the costs of premiums for a range of external insurance cover, meets the cost of claims not covered by external insurance, and receives contributions from Council services.

Interest on Revenue Balances: the Council's loans fund acts as an internal banker and pays interest where it has utilised any internal credit balances, e.g. the General Fund Reserves.

Inventories: materials etc. that have been purchased but not yet consumed in the delivery of Council services.

Glossary of Terms

Loan Charges: sometimes called debt charges, these are the annual repayments of principal, interest and expenses in respect of loans taken to finance capital expenditure.

Loans Fund: established as part of the Local Government (Scotland) Act 1975, the Council's Loans Fund acts as an internal banker and makes use of internal funds as well as controlling the Council's external borrowing needs. These balances represent the sums held in the Loans Fund on behalf of various funds.

Long-Term Borrowing: are sums borrowed to finance capital expenditure and not yet repaid, nor due to be repaid within one year. The majority of this is borrowed from the Public Works Loan Board and can be for periods of up to 60 years.

Pension Fund: under relevant legislation the Council administers a Pension Fund for its employees (other than teachers, who are members of a national scheme) and employees of certain other 'Admitted Bodies'. It is what is known as a 'funded scheme' whereby all monies not immediately required to pay pensions and benefits are invested.

Provision: a liability of uncertain timing or extent for which an estimate must be included in our annual accounts.

Ratios: financial analysis tools to support the evaluation of the financial health of the organisation.

Rents, Fees and Charges: add in charges for specific service; examples include home care charges, commercial rents, hall lets and library fines.

Reserves: sometimes referred to as 'Balances' they are the accumulated surpluses/deficits generated by the various funds. They are split between 'usable' and 'unusable' reserves.

Usable Reserves: Capital Fund, General Fund Balance, Property Maintenance Fund and Insurance Fund.

Unusable Reserves: Capital Adjustment Account, Financial Instruments Adjustment Account, Revaluation Reserve, Pension Reserve and STACA Statutory Mitigation Account .

Revaluation Reserve: the balance represents the difference between the depreciated revalued amount and the depreciated historic cost of fixed assets at 1 April 2007. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revenue Expenditure: the day to day recurring costs of providing services. It includes wages and salaries, property costs such as power and light, transport costs and supplies and services. It also includes the annual repayment of loans which have financed capital expenditure. Revenue expenditure is always paid for in full as and when it happens either from Council Tax, rents, fees, charges, grants and Revenue Support Grant (RSG) and distributions from the national Non-Domestic Rates Pool from the Scottish Government.

Significant Trading Operations: services provided in a competitive environment and which are charged for on a basis other than a straightforward recharge of costs, e.g. quoted lump sums, fixed rates etc.

Trust Funds: The Council administers 289 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 112 of which have charitable status and have been reorganised into 6 charities registered with the Office of the Scottish Charity Regulator (OSCR).

Virement: because circumstances change, budgets need to remain flexible. Virement is the approved transfer of resources from one area of the budget to another, the creation of new budgets to reflect additional income and related expenditure or the transfer of budget from one financial year to the next.

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COMMON GOOD AND TRUST ANNUAL REPORT AND ACCOUNTS 2016/17

Report by Chief Financial Officer

AUDIT AND SCRUTINY COMMITTEE

28 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Scrutiny Committee with an opportunity to scrutinise the draft Scottish Borders Council Common Good and Trust Accounts for the year ended 31 March 2017 prior to its submission to the External Auditors.**
- 1.2 The financial statements comply with the all relevant legislative requirements as detailed in paragraph 4.1.
- 1.3 The draft Report and Accounts are still subject to Audit, which will commence early July. Following Audit sign-off, the final Report and Accounts will be circulated to the joint Committee and Board.

2 STATUS OF REPORT

- 2.1 This report is presented to enable members to consider the draft Annual Report and Accounts (the Annual Report), prior to External Audit Inspection, by the statutory deadline of 30 June 2017

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Risk Committee:**
 - (a) **Notes the Draft Annual Report and Accounts 2016/17 for the Scottish Borders Council Common Good and Trust Funds; and**
 - (b) **Supports its submission for review by the External Auditors.**

4 BACKGROUND

- 4.1 All of the reports attached adhere to the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).
- 4.2 The Reports and Accounts included are included as appendices as follows:
- (a) Appendix 1 - Scottish Borders Council Common Good Funds
 - (b) Appendix 2 - Scottish Borders Council Education Trust
 - (c) Appendix 3 - Scottish Borders Council Welfare Trust
 - (d) Appendix 4 - Scottish Borders Council Community Enhancement Trust
 - (e) Appendix 5 - Scottish Borders Council Charitable Trusts
 - (f) Appendix 6 - Ormiston Trust for Institute
 - (g) Appendix 7 - Thomas Howden Wildlife Award Fund

5 ANNUAL REPORT AND ACCOUNTS 2016/17

- 5.1 The draft Annual Reports and Accounts for 2016/17 are attached at Appendix 1. The Annual Report will be submitted to the External Auditors, Audit Scotland for full audit by 30 June 2017.
- 5.2 The Annual Report will also be made available for public inspection for a three week period commencing 30 June 2017.
- 5.3 It should be noted that the Annual Report remains draft and the conclusion of the year end work including the external audit may result in changes to it.
- 5.4 The Committee will receive a copy of the final report at the end of the statutory external audit process to agree prior to its publication.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this proposal.

6.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

6.3 Equalities

It is anticipated that there are no adverse equality implications.

6.4 **Acting Sustainably**

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability.

6.5 **Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

6.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 **Changes to Scheme of Administration or Scheme of Delegation**

No changes are required as a result of the proposals contained in this report.

7 **CONSULTATION**

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted on the report and their comments have been incorporated.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

| Name | Designation and Contact Number |
|-------------|--|
| John Yallop | Senior Finance officer, 01835 82000 ext 5933 |

Background Papers:

Previous Minute Reference:

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

Contact us at Capital & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA

Tel: 01835 825016

email: treasuryteam@scotborders.gov.uk

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UNAUDITED

ANNUAL REPORT AND ACCOUNTS

SCOTTISH BORDERS COUNCIL
COMMON GOOD FUNDS

Charity Registration Number: SC031538

FOR THE YEAR TO 31 MARCH 2017

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FOREWORD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity Regulator (OSCR) requires that full audited accounts for this Charity are prepared.

The Charity comprises of the nine Common Good Funds within Scottish Borders Council, each holding property which it is responsible for maintaining, with many distributing grants to local causes which are eligible within its charitable purpose.

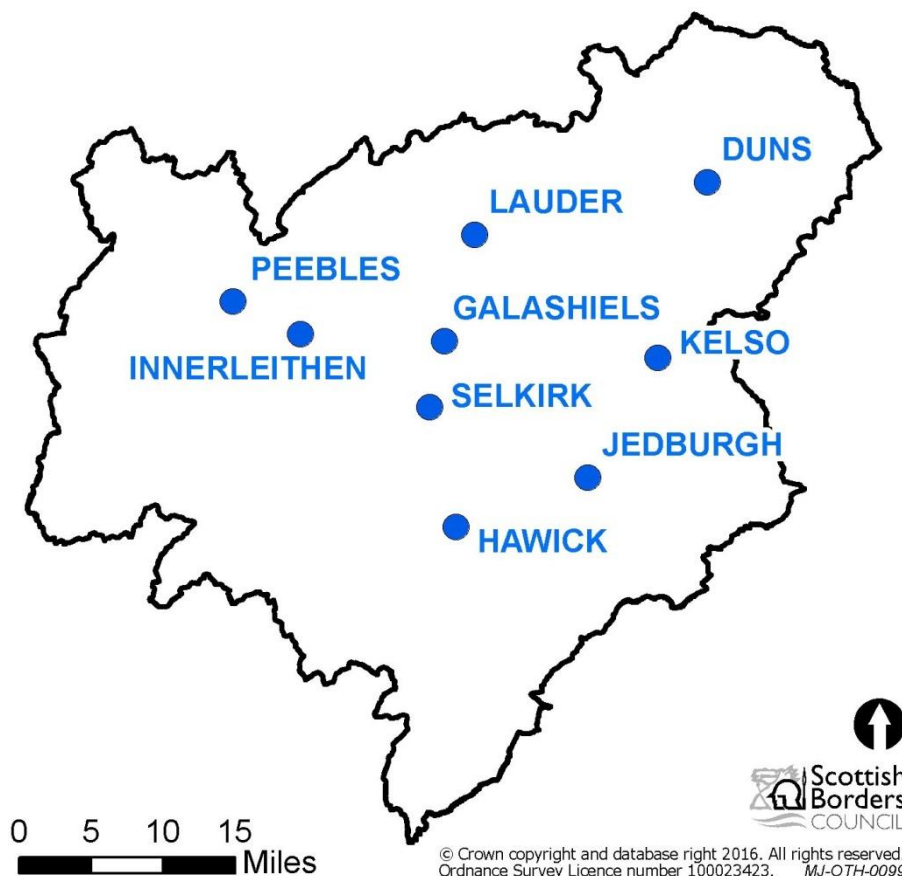
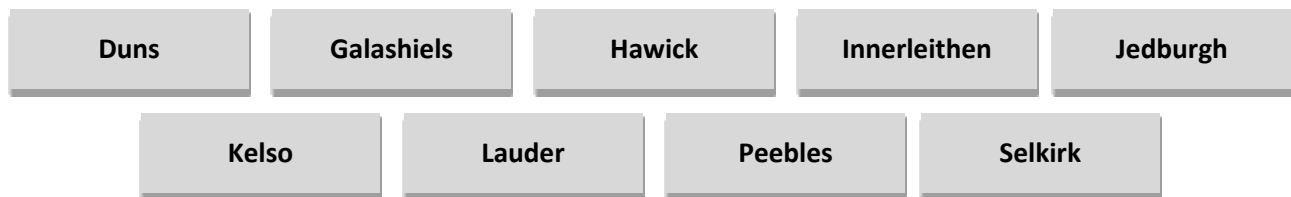
Each Common Good Fund within the charity has financial investments and / or property assets; the operational management of which is overseen by individual Sub-Committees of Elected Members from the relevant ward(s), supported by officers from the Council.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

a) The Charity comprises a number of separate funds for the former Burghs of:



b) Each fund is administered by a Sub-Committee of Elected Members representing the Council wards in which each Burgh is situated.

Charitable Purpose

The charitable purposes of the Common Good Funds are that, subject to their legal responsibilities in terms of any assets held by the charities, the **funds are operated for the common good of the residents** of the aforesaid former Burghs and may be used to **provide advancement of citizenship or community development**.

In respect of those funds which have land and property, the Trustees recognise their obligations to ensure that these assets are maintained.

Summary of the Main Activities

The Charity has taken steps to ensure that the **assets of the Funds are properly managed and accounted for**. Quarterly budget monitoring reports have been prepared for consideration by the Trustees forming the Working Group for each individual Burgh and the minutes of these meetings reported to the full Council in terms of the Code of Governance.

Maintenance work has been approved and carried out on fixed assets and responses made to applications for financial assistance as detailed in the Notes to the Financial Statements on page 13.

Most of the funds have made donations to eligible beneficiaries in their Burghs with a total of £171,022 being paid out in the year.

Plans for the Future

The Common Good Funds will continue to **maintain their heritable assets and will look to maximise their income** from any of these assets which are let commercially. Where assets are used by third parties towards the Common Good of the Burgh then rental levels may reflect this aspect of the tenants' activity.

Where funds permit, the Common Good Funds will look to make grants to organisations in their Burghs which will provide benefit to the Burgh residents, as approved by the individual Common Good Committees.

Governance and Management

Type of Governing Documents

- a) The overarching governance of the Charity is the principle of statute and common law. The statutory framework is the successive Acts from the Common Good Act 1491 through to the Local Government Scotland Act 1994, with the Local Government (Scotland) Act 1973 provisions still in force, and the Local Government in Scotland Act 2003. Cognisance is also to be taken of the various judicial opinions in case law governing the treatment of Common Goods.
- b) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:



- c) When considering any action in connection with the Common Good Funds the Trustees have regard to the interests of the inhabitants of the area to which the Common Good formerly related.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council and the relevant ward, i.e. those wards covering former Burgh areas and in terms of the Council's Code of Governance.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Reserves

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- all approved applications for grants
- all financial obligations in respect of properties owned by the charity, where relevant, and
- all support and governance costs.

At 31 March 2017, the reserves of the Common Good Funds amounted to:

- Restricted Income Funds - £3,478k
- Revaluation Reserves - £10,268k

Investments Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

Charity Name Scottish Borders Council Common Good Funds

Charity registration number SC031538

Business Address Council HQ
 Newtown St Boswells
 Melrose
 Scottish Borders
 TD6 0SA

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

| | | |
|-------------------|--------------------------------|---------------------|
| Sandy Aitchison | Willie Archibald | Michelle Ballantyne |
| Stuart Bell | Catriona Bhatia | Jim Brown |
| Joan Campbell | Michael J Cook | Keith Cockburn |
| Alastair Cranston | Vicky M Davidson | Gordon Edgar |
| James A Fullerton | Graham H T Garvie | Iain Gillespie |
| John Greenwell | Bill Herd | Gavin Logan |
| Stuart Marshall | Watson McAteer (from May 2014) | John G Mitchell |
| Donald Moffat | Simon Mountford | Alexander J Nicol |
| David Parker | David Paterson | Francis Renton |
| Sandy Scott | Ron Smith | Rory Stewart |
| Jim Torrance | George Turnbull | Tom Weatherspoon |
| Bill White | | |

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Auditor Audit Scotland
 102 West Port
 Edinburgh
 EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Common Good Funds which is recognised within *Other: governance costs* in the financial statements. All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Shona Haslam
Trustee
Scottish Borders Council Common Good Funds
28 June 2017

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity and within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March

| 2015/16 £'000 | | 2016/17 £'000 | Notes |
|------------------|--|------------------|-------|
| | Income from: | | |
| 105 | Donations and legacies | 28 | 1 |
| 54 | Investments | 69 | 2 |
| 237 | Charitable activities | 238 | |
| 570 | Other: donations | 128 | 7 |
| 966 | Total Income | 462 | |
| | Expenditure on: | | |
| (396) | Raising funds | (383) | |
| (89) | Charitable activities | (171) | |
| (48) | Other: governance costs | (48) | |
| (533) | Total Expenditure | (602) | 3 |
| 433 | Net Income / (Expenditure) | (139) | |
| | Other Recognised Gains / (Losses) | | |
| 103 | Gains on revaluation of fixed assets | 0 | |
| (33) | (Losses) / gains on investment assets - unrealised | (8) | |
| 0 | Impairment of Fixed Asset | (3) | 5 |
| 503 | Net Movement in Funds | (149) | |
| | Reconciliation of Funds | | |
| 13,392 | Total funds brought forward | 13,895 | |
| 13,895 | Total Funds Carried Forward | 13,746 | |

BALANCE SHEET as at 31 March 2017

| as at 31 March 2016 | | | as at 31 March 2017 | | Notes |
|------------------------|-----------------|---|------------------------|-----------------|-------|
| £'000 | £'000 | | £'000 | £'000 | |
| | | Long Term Assets | | | |
| 11,022 | | Tangible assets | 10,747 | | 5 |
| 2,361 | | Investments | 2,700 | | 6 |
| 60 | | Long term loan to third party | 48 | | |
| | 13,443 | Total Long Term Assets | | 13,495 | |
| | | Current Assets | | | |
| 21 | | Debtors | 20 | | |
| 476 | | Short term investment in SBC loans fund | 254 | | |
| | 497 | Total Current Assets | | 275 | |
| | | Current Liabilities | | | |
| | (45) | Creditors: Amounts falling due within 1 year | | (23) | |
| | 452 | Net Current Assets | | 252 | |
| | 13,895 | Total Net Assets | | 13,746 | |
| | | The Funds of the Charity | | | |
| | (3,353) | Restricted income funds | | (3,478) | 7 |
| | (10,542) | Revaluation reserve | | (10,268) | |
| | (13,895) | Total Charity Funds | | (13,746) | |

All of the charity's activities are continuing.

The Accounting Policies on pages 11 and 12 and the Notes on pages 13 to 15 form part of these Financial Statements.

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Donations and grants are recorded as expenditure when the activity they relate to takes place, regardless of when applications are approved.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds. Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Tangible Fixed Assets and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchased in the year, the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Donations and Legacies

| 2015/16 £000 | | 2016/17 £'000 |
|-----------------|--------------|------------------|
| 1 | Duns | 2 |
| 4 | Galashiels | 1 |
| 16 | Hawick | 6 |
| 0 | Innerleithen | 0 |
| 14 | Jedburgh | 1 |
| 1 | Kelso | 1 |
| 56 | Lauder | 6 |
| 8 | Peebles | 5 |
| 5 | Selkirk | 5 |
| 105 | | 28 |

2 Income from Investments

| 2015/16 £000 | | 2016/17 £'000 |
|-----------------|--|------------------|
| 3 | Bank Interest Receivable from SBC Loans Fund | 3 |
| 51 | Income from Investment Portfolio | 66 |
| 54 | | 69 |

3 Analysis of Charitable Expenditure

| 2015/16 Total £'000 | | Activities Undertaken Directly £'000 | Support and Governance Costs £'000 | Property Cost & Depreciation £'000 | 2016/17 Total £'000 |
|---------------------------|--------------|---|---|---|---------------------------|
| 4 | Duns | 0 | 2 | (1) | 1 |
| 39 | Galashiels | 0 | 2 | 36 | 38 |
| 142 | Hawick | 37 | 11 | 112 | 160 |
| 17 | Innerleithen | 0 | 0 | 17 | 17 |
| 27 | Jedburgh | 77 | 4 | 12 | 93 |
| 52 | Kelso | 5 | 2 | 43 | 49 |
| 31 | Lauder | 2 | 10 | 17 | 29 |
| 97 | Peebles | 24 | 8 | 48 | 81 |
| 124 | Selkirk | 27 | 10 | 98 | 134 |
| 533 | | 171 | 48 | 383 | 602 |

4 Governance Costs

Governance costs are comprised of a recharge from SBC and reflect the cost of the proportionate administration, finance, and legal time spent on Common Good funds.

5 Tangible Assets

The change in the value of tangible assets has been driven by the following movements:

| As at 31 March 2016 | | as at 31 March 2017 | | |
|---------------------|--------------|---------------------|--------------|---------------|
| Total | | Asset Impairment | Depreciation | Total |
| £'000 | | £'000 | £'000 | £'000 |
| 3 | Duns | (3) | 0 | 0 |
| 625 | Galashiels | 0 | (36) | 588 |
| 3,638 | Hawick | 0 | (40) | 3,599 |
| 307 | Innerleithen | 0 | (17) | 290 |
| 476 | Jedburgh | 0 | (12) | 465 |
| 840 | Kelso | 0 | (43) | 798 |
| 1,017 | Lauder | 0 | (11) | 1,005 |
| 879 | Peebles | 0 | (37) | 841 |
| 3,237 | Selkirk | 0 | (76) | 3,161 |
| 11,022 | | (3) | (272) | 10,747 |

The asset disposal in Duns relates to No. 10 South Street, Duns, **which was transferred at nil consideration to the Queen's & Lord Treasurer's Remembrancer, following investigations relating to legal title of the property.**

Long term assets are broken down between Land & buildings and Heritage assets as follows:

| As at 31 March 2016 | | as at 31 March 2017 | | |
|---------------------|--------------|------------------------------------|-----------------|------------------------|
| Total | | Land & Buildings at Net Book Value | Heritage Assets | Total Long Term Assets |
| £'000 | | £'000 | £'000 | £'000 |
| 3 | Duns | 0 | 0 | 0 |
| 625 | Galashiels | 588 | 0 | 588 |
| 3,638 | Hawick | 3,596 | 3 | 3,599 |
| 307 | Innerleithen | 290 | 0 | 290 |
| 477 | Jedburgh | 465 | 0 | 465 |
| 841 | Kelso | 779 | 19 | 798 |
| 1,016 | Lauder | 1,005 | 0 | 1,005 |
| 878 | Peebles | 839 | 2 | 841 |
| 3,237 | Selkirk | 3,159 | 2 | 3,161 |
| 11,022 | | 10,721 | 26 | 10,747 |

6 Investments

All investments are through a recognised investment exchange, as at 31 March 2017 all investments were with the Newton Real Return Fund. Investment amounts and unrealised gains on these investments at 31 March 2017, per Common Good Fund are detailed below:

| As at 31 March 2016 | | as at 31 March 2017 | | |
|---------------------|--------------|---------------------|-----------------|------------------|
| Total Investment | | Newton Investment | Unrealised Gain | Total Investment |
| £'000 | | £'000 | £'000 | £'000 |
| 0 | Duns | 0 | 0 | 0 |
| 25 | Galashiels | 149 | 5 | 154 |
| 372 | Hawick | 459 | 14 | 473 |
| 0 | Innerleithen | 0 | 0 | 0 |
| 941 | Jedburgh | 915 | 22 | 937 |
| 255 | Kelso | 246 | 8 | 254 |
| 249 | Lauder | 250 | 8 | 258 |
| 384 | Peebles | 422 | 13 | 435 |
| 135 | Selkirk | 185 | 4 | 189 |
| 2,361 | | 2,626 | 74 | 2,700 |

7 Restricted Income Funds

| Balance at 31 March 2016 £'000 | | Unrealised movement on investment assets | Other income: donations | SOFA Surplus | Balance at 31 March 2017 £'000 |
|--------------------------------|--------------|--|-------------------------|--------------|--------------------------------|
| 20 | Duns | 0 | 0 | 1 | 18 |
| 186 | Galashiels | (1) | 128 | 3 | 317 |
| 635 | Hawick | 1 | 0 | 3 | 640 |
| 135 | Innerleithen | 0 | 0 | 0 | 135 |
| 1,047 | Jedburgh | (4) | 0 | (53) | 989 |
| 291 | Kelso | (1) | 0 | 1 | 291 |
| 291 | Lauder | (1) | 0 | 6 | 297 |
| 497 | Peebles | (1) | 0 | 22 | 520 |
| 251 | Selkirk | (1) | 0 | 22 | 271 |
| 3,353 | | (8) | 128 | 5 | 3,478 |

The total donation of £128k above represents the capital transfer of Newton investment held by the Ladhope Estate trust into the Galashiels Common Good Fund.

8 Contingent Assets

The charity granted a secured grant to Jedburgh Golf Club in 2004 to purchase land. The grant is to be written down over 20 years. If during this period the land is sold the balance of the remaining funds are to be returned to the charity.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and

ADDITIONAL INFORMATION

Contact Details

For further information on the Common Good Funds, please contact:

| | |
|------------------------------|--|
| Kirsty Robb | Telephone: 01835 – 825249 |
| Capital & Investment Manager | E-mail: krobb@scotborders.gov.uk |
| Scottish Borders Council | Council Headquarters Newtown St Boswells MELROSE TD6 0SA |

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UNAUDITED
ANNUAL REPORT AND
ACCOUNTS
SCOTTISH BORDERS COUNCIL
WELFARE TRUST

Charity Registration Number: SC044765
FOR THE YEAR TO 31 MARCH 2017

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FOREWORD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Welfare Trust, the "Trust", which was established for the purpose of:

- a) The prevention or relief of poverty;
- b) The relief of those in need by reason of age, ill-health, disability, financial hardship or other disadvantage; or
- c) The advancement of health, including the advancement of education in health.

By among other things, the payment of grants and/or loans to such charities or other organisations or to such individuals who are deserving of benefit as the Trustees shall, in their sole and unfettered discretion, select as suitable recipients of such benefit, to be applied by such recipients for the charitable purposes of either the prevention or relief of poverty or the relief of those in need or the advancement of health, as appropriate.

During 2016/17 further work on the reorganisation of charity funds continued and will continue in 2017/18 and is expected to result in additional resources being transferred into this Charitable Trust.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

Following the establishment of the Trust, Scottish Borders Council on 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council has delegated powers to the Sub-Committee to manage the operation of the Trust.

Charitable Purpose

The prevention or relief of poverty

The relief of those in need by reason of age, ill-health, disability, financial hardship or other disadvantage or

The advancement of health, including the advancement of education in health

By among other things, the payment of grants and/or loans to such charities or other organisations or to such individuals who are deserving of benefit as the Trustees shall, in their sole and unfettered discretion, select as suitable recipients of such benefit, to be applied by such recipients for the charitable purposes of either the prevention or relief of poverty or the relief of those in need or the advancement of health, as appropriate.

Summary of the Main Activities

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. The charity made donations to two eligible beneficiaries during the year to 31 March 2017.

Plans for the Future

The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.

It is anticipated that the ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of existing disbursement criteria, will result in the amalgamation of other registered and non-registered trusts and bequests into the SBC Education Trust in 2017/18.

Governance and Management

Type of Governing Documents

- a) A Trust Deed has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Reserves

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- all approved applications for grants
- all support and governance costs are covered

At 31 March 2017, the reserves of the SBC Welfare Trust amounted to:

- Restricted Income Funds - £110,968

Investments

Per the Council's Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

| | |
|------------------------------------|---|
| Charity Name | SBC Welfare Trust |
| Charity registration number | SC044765 |
| Business Address | Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA |

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

| | | |
|-------------------|--------------------------------|---------------------|
| Sandy Aitchison | Willie Archibald | Michelle Ballantyne |
| Stuart Bell | Catriona Bhatia | Jim Brown |
| Joan Campbell | Michael J Cook | Keith Cockburn |
| Alastair Cranston | Vicky M Davidson | Gordon Edgar |
| James A Fullerton | Graham H T Garvie | Iain Gillespie |
| John Greenwell | Bill Herd | Gavin Logan |
| Stuart Marshall | Watson McAteer (from May 2014) | John G Mitchell |
| Donald Moffat | Simon Mountford | Alexander J Nicol |
| David Parker | David Paterson | Francis Renton |
| Sandy Scott | Ron Smith | Rory Stewart |
| Jim Torrance | George Turnbull | Tom Weatherspoon |
| Bill White | | |

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Auditor Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Welfare Fund.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Shona Haslam
Trustee
Scottish Borders Council Welfare Trust
28 June 2017

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ | Notes |
|----------------|--|----------------|-------|
| | Income From: | | |
| 2,677 | Investments | 2,529 | 1 |
| 2,677 | Total Income | 2,529 | |
| | Expenditure on: | | |
| 176 | Charitable activities | (277) | 2 |
| 176 | Total Expenditure | (277) | |
| 2,853 | Net Income / (Expenditure) | 2,252 | |
| | Other Recognised Gains and Losses | | |
| (1,678) | (Loss) / gain on investment assets | (407) | |
| 1,175 | Net Movement in Funds | 1,845 | |
| | Reconciliation of Funds | | |
| 107,949 | Total funds brought forward | 109,124 | |
| 109,124 | Total Funds Carried Forward | 110,968 | 6 |

BALANCE SHEET as at 31 March 2017

| as at 31 March 2016 RESTATED | | | as at 31 March 2017 | | Notes |
|---------------------------------|------------------|---|---------------------|------------------|-------|
| £ | £ | | £ | £ | |
| | | Fixed Assets | | | |
| 98,898 | | Investments | 98,491 | | 4 |
| | 98,898 | | | 98,491 | |
| | | Current Assets | | | |
| | 10,226 | Short term investment in SBC loans fund | | 12,477 | 5 |
| | | Current Liabilities | | | |
| | 0 | Creditors: Amounts falling due within 1 year | | 0 | |
| | 10,226 | Net Current Assets | | 12,477 | |
| | 109,124 | Total Net Assets | | 110,968 | |
| | | The Funds of the Charity | | | |
| (109,124) | | Restricted income funds | (110,968) | | 6,7 |
| | (109,124) | Total Charity Funds | | (110,968) | |

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 and 13 form part of these Financial Statements.

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Donations and grants are recorded as expenditure when they are approved.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds.

Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

| 2015/16 £ | | 2016/17 £ |
|--------------|----------------------------------|--------------|
| 95 | Bank Interest Receivable | 33 |
| 2,581 | Income from Investment Portfolio | 2,495 |
| 2,677 | | 2,529 |

2 Charitable Activities

Charitable activities during the year related to grants accrued and or paid to:

Galashiels Local Relief Fund - £108.86, and
Senior Citizens Co-Ordinating Committee - £168.33

3 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity.

4 Investments

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2017 all investments were with the Newton Real Return Fund.

5 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

6 Restricted Funds

The funds held with the Charity are restricted by area, purpose or both. The restrictions for each are shown in the table below. Expenditure in the year relates to net loss on Newton investments made in the year. It is included here to reconcile the restricted balances.

| 2015/16 Balance | Restricted by Area | Restricted by Purpose | Income | Expenditure | Loss on investment assets | 2016/17 Balance |
|--------------------|--------------------------|--------------------------|--------------|-------------|---------------------------------|--------------------|
| £ | £ | | £ | £ | £ | £ |
| 60,151 | Mid & East Berwickshire | a&b | 1,361 | 0 | 218 | 61,294 |
| 4,188 | Galashiels & District | a&b | 109 | 109 | 18 | 4,170 |
| 8,898 | Leaderdale & Melrose | a&b | 205 | 0 | 33 | 9,070 |
| 19,875 | Jedburgh & District | a&b | 476 | 0 | 77 | 20,274 |
| 8,120 | Hawick/Denholm/Hermitage | a&b | 192 | 0 | 31 | 8,281 |
| 717 | Tweeddale East & West | Unrestricted | 17 | 0 | 3 | 731 |
| 7,175 | Tweeddale East & West | a&b | 168 | 168 | 27 | 7,148 |
| 109,124 | | | 2,528 | 277 | 407 | 110,968 |

7 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all support and governance costs are covered

At 31 March 2017, the reserves of the SBC Welfare Trust amounted to:

- Restricted Income Funds - £110,968

INDEPENDENT AUDITOR'S REPORT
to the trustees of Scottish Borders Welfare Trust and the Accounts

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Welfare Trust, please contact:

| | |
|------------------------------|--|
| Kirsty Robb | Telephone: 01835 – 825249 |
| Capital & Investment Manager | E-mail: krobb@scotborders.gov.uk |
| Scottish Borders Council | Council Headquarters Newtown St Boswells MELROSE TD6 0SA |

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UNAUDITED

ANNUAL REPORT AND ACCOUNTS

SCOTTISH BORDERS COUNCIL
EDUCATION TRUST

Charity Registration Number: SC044762

FOR THE YEAR TO 31 MARCH 2017

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FOREWARD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Education Trust, the "Trust", in 2014/15. Investigative work commenced in 2015/16 to identify further "Educational" trusts which could be integrated into this Charity. This work continued in 2016/17 and is planned to be substantially concluded in 2017/18 with the proposed amalgamation of numerous educational based trusts and bequests into the SBC Education Trust

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

Following the establishment of the Trust, Scottish Borders Council on 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council has delegated powers to the Sub-Committee to manage the operation of the Trust according to its charitable purpose.

Charitable Purpose

To advance and/or promote cultural exchange by, among other things, the payment of grants and/or loans, the award of bursaries, the award of prizes, payment towards cultural exchanges that further an educational purpose both within Scottish Borders area and further afield (including abroad), to such educational institutions, charities or other organisations or to such individuals deserving of benefit as the Trustees shall, in their sole and unfettered discretion, select as suitable recipients of such benefit, to be applied by such recipients for the charitable purpose of the advancement of education and/or promotion of cultural exchange.

Summary of the Main Activities

Funds are properly managed and accounted for. The charity has made a donation to one eligible beneficiary during the year to 31 March 2016.

Plans for the Future

The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.

It is anticipated that the ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of existing disbursement criteria, will result in the amalgamation of other registered and non-registered trusts and bequests into the SBC Education Trust in 2017/18.

Governance and Management

Type of Governing Documents

- a) A Trust Deed has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:

Financial
Regulations

Code of
Corporate
Governance

Procedural
Standing
Orders

Scheme of
Administration

Scheme of
Delegation

- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Reserves

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- all approved applications for grants
- all support and governance costs are covered

At 31 March 2017, the reserves of the SBC Education Trust amounted to:

- Restricted Income Funds - £1,811

Investments

Per the Council's Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

| | |
|------------------------------------|---|
| Charity Name | SBC Education Trust |
| Charity registration number | SC044762 |
| Business Address | Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA |

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

| | | |
|-------------------|--------------------------------|---------------------|
| Sandy Aitchison | Willie Archibald | Michelle Ballantyne |
| Stuart Bell | Catriona Bhatia | Jim Brown |
| Joan Campbell | Michael J Cook | Keith Cockburn |
| Alastair Cranston | Vicky M Davidson | Gordon Edgar |
| James A Fullerton | Graham H T Garvie | Iain Gillespie |
| John Greenwell | Bill Herd | Gavin Logan |
| Stuart Marshall | Watson McAteer (from May 2014) | John G Mitchell |
| Donald Moffat | Simon Mountford | Alexander J Nicol |
| David Parker | David Paterson | Francis Renton |
| Sandy Scott | Ron Smith | Rory Stewart |
| Jim Torrance | George Turnbull | Tom Weatherspoon |
| Bill White | | |

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Auditor Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Education Trust.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Shona Haslam
Trustee
Scottish Borders Council Education Trusts
28 June 2017

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ | Notes |
|--------------|--|--------------|-------|
| | Income from: | | |
| 119 | Investments | 131 | |
| 119 | Total Income | 131 | |
| | Expenditure on: | | |
| (42) | Charitable activities | (50) | 1 |
| (42) | Total Expenditure | (50) | |
| 77 | Net Income / (Expenditure) | 81 | |
| | Other Recognised Gains and Losses | | |
| (24) | (Loss) / gains on investment assets | (7) | |
| 53 | Net Movement in Funds | 74 | |
| | Reconciliation of Funds | | |
| 1,684 | Total funds brought forward | 1,737 | |
| 1,737 | Total Funds Carried Forward | 1,811 | |

BALANCE SHEET as at 31 March 2017

| as at 31 March 2016 | | | as at 31 March 2017 | | Notes |
|------------------------|----------------|--|------------------------|----------------|-------|
| £ | £ | | £ | £ | |
| | | Fixed Assets | | | |
| 1,592 | | Investments | 1,585 | | 3 |
| | 1,592 | | | 1,585 | |
| | | Current Assets | | | |
| | 145 | Short term investment in SBC loans fund. | | 226 | 4 |
| | 145 | Net Current Assets | | 226 | |
| | 1,737 | Total Net Assets | | 1,811 | |
| | | The Funds of the Charity | | | |
| (1,737) | | Restricted income funds | (1,811) | | |
| | (1,737) | Total Charity Funds | | (1,811) | |

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on page 12 form part of these Financial Statements.

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Donations and grants are recorded as expenditure when they are approved or if approved in principle only, when final confirmation of amount is received by the applying body.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds. Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Charitable Activities

The charity has made provided a grant to one eligible beneficiary during the year to 31 March 2017.

2 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity.

3 Investments

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2016 all investments were with the Newton Real Return Fund.

4 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

INDEPENDENT AUDITOR'S REPORT
to the trustees of Scottish Borders Council Education Trust and the

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Education Trust, please contact:

| | |
|------------------------------|--|
| Kirsty Robb | Telephone: 01835 – 825249 |
| Capital & Investment Manager | E-mail: krobb@scotborders.gov.uk |
| Scottish Borders Council | Council Headquarters Newtown St Boswells MELROSE TD6 0SA |

UNAUDITED

ANNUAL REPORT AND

ACCOUNTS

SCOTTISH BORDERS COUNCIL

COMMUNITY ENHANCEMENT

TRUST

Charity Registration Number: SC044764

FOR THE YEAR TO 31 MARCH 2017

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FOREWORD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Community Enhancement Trust, the "Trust", which was established from 10 funds held by Scottish Borders Council. The purpose of the trust is as follows:

- a) The advancement of community development;
- b) The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets;
- c) The provision of recreational facilities, or the organisation of recreational activities are primarily intended; or
- d) The advancement of environmental protection or improvement.

During 2016/17 further work on the reorganisation of charity funds continued and it is planned that further resources will be transferred into this Trust in 2017/18.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

Following the establishment of the Trust, Scottish Borders Council on 21st May 2015 approved the appointment of the Convenor of Scottish Borders Council as the Chairman and the creation of Charitable Trusts Sub-Committees. The Council has delegated powers to the Sub-Committee to manage the operation of the Trust.

Charitable Purpose

The advancement of Community Development;
The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets;
The provision of recreational facilities, or the organisation of recreational activities are primarily intended; or
The advancement of environmental protection or improvement.

Summary of the Main Activities

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. No funds have been disbursed during 2016/17.

Plans for the Future

The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds. It is anticipated that the ongoing reorganisation work undertaken by Scottish Borders Council officers, including further refinement of existing disbursement criteria, will result in the amalgamation of other registered and non-registered trusts and bequests into the SBC Community Enhancement Trust in 2017/18.

Governance and Management

Type of Governing Documents

- a) A Trust Deed has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Reserves

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- all approved applications for grants
- all support and governance costs are covered

At 31 March 2017, the reserves of the SBC Community Enhancement Trust amounted to:

- Restricted Income Funds - £73,560.

Investments

Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

| | |
|------------------------------------|--|
| Charity Name | SBC Community Enhancement Trust |
| Charity registration number | SC044764 |
| Business Address | Council HQ Newtown St Boswells Melrose Scottish Borders |

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

| | | |
|-------------------|--------------------------------|---------------------|
| Sandy Aitchison | Willie Archibald | Michelle Ballantyne |
| Stuart Bell | Catriona Bhatia | Jim Brown |
| Joan Campbell | Michael J Cook | Keith Cockburn |
| Alastair Cranston | Vicky M Davidson | Gordon Edgar |
| James A Fullerton | Graham H T Garvie | Iain Gillespie |
| John Greenwell | Bill Herd | Gavin Logan |
| Stuart Marshall | Watson McAteer (from May 2014) | John G Mitchell |
| Donald Moffat | Simon Mountford | Alexander J Nicol |
| David Parker | David Paterson | Francis Renton |
| Sandy Scott | Ron Smith | Rory Stewart |
| Jim Torrance | George Turnbull | Tom Weatherspoon |
| Bill White | | |

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Auditor Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Community Enhancement Trust.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Shona Haslam
Trustee
Scottish Borders Council Community Enhancement Trust
28 June 2017

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ | Notes |
|---------------|--|---------------|-------|
| | Income from: | | |
| 2,419 | Investments | 1,873 | 1 |
| 2,419 | Total Income | 1,873 | |
| | Expenditure on: | | |
| 0 | Charitable activities | 0 | 2 |
| 0 | Total Resources Expended | 0 | |
| 2,419 | Net Income / (Expenditure) | 1,873 | |
| | Other Recognised Gains and Losses | | |
| (1,097) | (Loss) / gain on investment assets | (304) | 4,5 |
| 1,322 | Net Movement in Funds | 1,569 | |
| | Reconciliation of Funds | | |
| 70,669 | Total funds brought forward | 71,991 | 5 |
| 71,991 | Total Funds Carried Forward | 73,560 | 5 |

BALANCE SHEET as at 31 March 2017

| as at 31 March 2016 | | | as at 31 March 2017 | | Notes |
|------------------------|----------|---|------------------------|----------|-------|
| £ | £ | | £ | £ | |
| 73,824 | | Fixed Assets | | | |
| | 73,824 | Investments | 73,521 | | |
| | | Current Assets | | 73,521 | |
| | 0 | Short term investment in SBC loans fund. | 39 | | |
| | (1,833) | Current Liabilities | | | |
| | (1,833) | Creditors: Amounts falling due within 1 year | | | |
| | | Net Current Assets | | 39 | |
| | 71,991 | Total Net Assets | | 73,560 | 5 |
| (71,991) | | The Funds of the Charity | | | |
| | | Restricted income funds | (73,560) | | |
| | (71,991) | Total Charity Funds | | (73,560) | 5 |

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 and 13 form part of these Financial Statements.

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Donations and grants are recorded as expenditure when they are approved or if approved in principle only, when final confirmation of amount is received by the applying body.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds.

Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

| 2015/16 £ | | 2016/17 £ |
|--------------|----------------------------------|--------------|
| 26 | Bank Interest Receivable | 10 |
| 2,393 | Income from Investment Portfolio | 1,863 |
| 2,419 | | 1,873 |

2 Charitable Activities

There were no charitable activities during 2016/17.

3 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity.

4 Investments

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2017 all investments were with the Newton Real Return Fund.

5 Restricted Funds

The funds held with the Charity are restricted by area, purpose or both. Expenditure includes grants paid out but also the net unrealised loss on Newton investment during the year. These balances are required to be included in order to reconcile opening and closing balances. They were included in income last year when there was a net unrealised gain on investment.

The restrictions for each are shown in the table below. The purpose of these funds are:

- a) Advancement of Community Development
- b) The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets
- c) The provision of recreational facilities, or the organisation of recreational activities are primarily intended, or
- d) Advancement of environmental protection or improvement

| 2015/16 Balance | Restricted by Area | Restricted by Purpose | Income | Loss on investment assets | 2016/17 Balance |
|--------------------|----------------------|---------------------------|--------------|---------------------------------|--------------------|
| £ | £ | | £ | £ | £ |
| 1,494 | Borders Wide | a | 36 | 6 | 1,524 |
| 12,959 | Berwickshire | Unrestricted | 311 | 50 | 13,220 |
| 27,817 | Berwickshire | b | 824 | 135 | 28,506 |
| 517 | Berwickshire | Henderson Park & War Mem. | 14 | 2 | 529 |
| 1,600 | Cheviot | Allerley Park | 38 | 6 | 1,632 |
| 1,096 | Selkirkshire | Unrestricted | 26 | 4 | 1,118 |
| 19,674 | Teviot & Liddiesdale | b | 460 | 74 | 20,060 |
| 6,834 | Teviot & Liddiesdale | a&b | 164 | 27 | 6,971 |
| 71,991 | | | 1,873 | 304 | 73,560 |

INDEPENDENT AUDITOR'S REPORT
to the trustees of Scottish Borders Council Community Enhancement

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Community Enhancement Trust, please contact:

| | |
|------------------------------|--|
| Kirsty Robb | Telephone: 01835 – 825249 |
| Capital & Investment Manager | E-mail: krobb@scotborders.gov.uk |
| Scottish Borders Council | Council Headquarters Newtown St Boswells MELROSE TD6 0SA |

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UNAUDITED

ANNUAL REPORT AND

ACCOUNTS

SCOTTISH BORDERS COUNCIL

THOMAS HOWDEN WILDLIFE AWARD FUND

Charity Registration Number: SC015647

FOR THE YEAR TO 31 MARCH 2017

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FOREWARD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

In late 2012/13 the reorganisation of 34 registered charities was formally recognised by OSCR and this work continued in 2015/16 with full approval of OSCR. The Thomas Howden Wildlife Fund was not included in this initial reorganisation but work which commenced in 2016/17 will be completed in 2017/18, in conjunction with OSCR to reorganise this fund into the SBC Education Trust.

TRUSTEES' ANNUAL REPORT FOREWARD

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Charitable Purpose

The bequest is to be used to make provision for 2 prizes at Peebles High School for wildlife educational activities with Trustees discretion not to award in any year.

Summary of the Main Activities

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. No funds have been disbursed during 2016/17.

Plans for the Future

In 2016/17 work continued to reorganise the Thomas Howden Wildlife Award Fund into the SBC Education Trust which was established in the initial reorganisation of charities. This work was completed in March 2017 with Council approval for the reorganisation. A formal application will be made to OSCR in 2017/18.

Governance and Management

Type of Governing Documents

- a) The Charity came to be administered by the Council during local government reorganisation in 1996. The trust purpose was set out in a deed of trust by Williemeana Mary Andrew Howden in favour of the former education authority, The Borders Regional Council, dated 31 May 1988 although the principal deed is not held by the Council.
- b) The overarching governance of the Charity is the principle of statute and common law governing trusts and bequests. The statutory framework are through the Local Government Scotland Act 1994, with the Local Government (Scotland) Act 1973 provisions still in force, and the Local Government in Scotland Act 2003.
- c) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

Financial
Regulations

Code of
Corporate
Governance

Procedural
Standing
Orders

Scheme of
Administration

Scheme of
Delegation

- d) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- e) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Reserves

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- all approved applications for grants
- all support and governance costs are covered

At 31 March 2017, the reserves of the Thomas Howden Wildlife Award amounted to:

- Restricted Income Funds - £4,432.

Investments Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

| | |
|------------------------------------|---|
| Charity Name | Thomas Howden Wildlife Award Fund |
| Charity registration number | SC015647 |
| Business Address | Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA |

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

| | | |
|-------------------|--------------------------------|---------------------|
| Sandy Aitchison | Willie Archibald | Michelle Ballantyne |
| Stuart Bell | Catriona Bhatia | Jim Brown |
| Joan Campbell | Michael J Cook | Keith Cockburn |
| Alastair Cranston | Vicky M Davidson | Gordon Edgar |
| James A Fullerton | Graham H T Garvie | Iain Gillespie |
| John Greenwell | Bill Herd | Gavin Logan |
| Stuart Marshall | Watson McAteer (from May 2014) | John G Mitchell |
| Donald Moffat | Simon Mountford | Alexander J Nicol |
| David Parker | David Paterson | Francis Renton |
| Sandy Scott | Ron Smith | Rory Stewart |
| Jim Torrance | George Turnbull | Tom Weatherspoon |
| Bill White | | |

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Auditor Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Thomas Howden Wildlife Award Fund

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Shona Haslam
Trustee
Scottish Borders Council Thomas Howden Wildlife Award Fund
28 June 2017

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES for year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ | Notes |
|--------------|--|--------------|-------|
| 206 | Income from: Investments | 227 | 1 |
| 206 | Total Income | 227 | |
| 0 | Expenditure on: Charitable activities | 0 | 2 |
| 0 | Total Expenditure | 0 | |
| 206 | Net Income / (Expenditure) | 227 | |
| (54) | Other recognised gains and losses (Loss) / gain on investment assets | (15) | |
| 151 | Net Movement in Funds | 211 | |
| | Reconciliation of Funds | | |
| 4,069 | Total funds brought forward | 4,221 | |
| 4,221 | Total Funds Carried Forward | 4,432 | 6 |

BALANCE SHEET as at 31 March 2017

| as at 31 March 2016 | | | as at 31 March 2017 | | Notes |
|---------------------|---------|--|---------------------|---------|-------|
| £ | £ | | £ | £ | |
| 3,641 | 3,641 | Fixed Assets | | | |
| | | Investments | 3,626 | | 4 |
| | 580 | Current Assets | | 3,626 | |
| | | Short term investment in SBC loans fund. | | 806 | 5 |
| | 580 | Net Current Assets | | 806 | |
| | 4,221 | Total Net Assets | | 4,432 | |
| (4,221) | | The Funds of the Charity | | | |
| | | Restricted income funds | (4,432) | | 6 |
| | (4,221) | Total Charity Funds | | (4,432) | |

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on page 12 form part of these Financial Statements.

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Donations and grants are recorded as expenditure when they are approved.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

| 2015/16 £ | | 2016/17 £ |
|--------------|----------------------------------|--------------|
| 2 | Bank Interest Receivable | 2 |
| 204 | Income from Investment Portfolio | 225 |
| 206 | | 227 |

2 Charitable Activities

There were no charitable activities during 2016/17.

3 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity.

4 Investments

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2017 all investments were with the Newton Real Return Fund.

5 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

6 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all support and governance costs are covered

At 31 March 2017, the reserves of the Thomas Howden Wildlife Award amounted to:

Restricted Income Funds - £4,432.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Thomas Howden Wildlife

ADDITIONAL INFORMATION

Contact Details

For further information on the Thomas Howden Wildlife Award Fund, please contact:

| | |
|------------------------------|--|
| Kirsty Robb | Telephone: 01835 – 825249 |
| Capital & Investment Manager | E-mail: krobb@scotborders.gov.uk |
| Scottish Borders Council | Council Headquarters Newtown St Boswells MELROSE TD6 0SA |

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UNAUDITED

ANNUAL REPORT AND

ACCOUNTS

SCOTTISH BORDERS COUNCIL

ORMISTON TRUST FOR INSTITUTE

Charity Registration Number: SC019162

FOR THE YEAR TO 31 MARCH 2017

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FOREWARD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

Due to the Ormiston Institute containing heritable assets it has not been included new Charities recently established by Scottish Borders Council following a reorganisation of a number of trusts, in consultation with OSCR. The Ormiston Institute remains a single registered charity.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

The Charity is a single standalone charity for the Ormiston Institute in Melrose and is registered with OSCR.

Charitable Purpose

The fund is to be used to provide and maintain the property known as the Ormiston Institute in Melrose to provide recreational and educational rooms in the town for the inhabitants of the Town and district.

Summary of the Main Activities

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for.
The funds generated during 2016/17 have been fully utilized during the year. The funds are expended on behalf of the Charity by Live Borders who manages facility on behalf of the Trustees.

Plans for the Future

Scottish Borders Council will continue to manage the service on behalf of Trustees ensuring access to the services and building is provided.
An ongoing project, led by the Trimontium Trust aims to expand and improve the Trimontium Museum, located in the Ormiston Institute.

Governance and Management

Type of Governing Documents

- a) The charity came to be administered by the Council during local government reorganisation in 1996. A Trust Disposition and settlement by the late Charles Walker Ormiston was requested with the books of Council and Session 13 February 1882. The present Council are the statutory successors to that body.
- a) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

Financial
Regulations

Code of
Corporate
Governance

Procedural
Standing
Orders

Scheme of
Administration

Scheme of
Delegation

- c) When considering any action in connection with the Charity the Trustees must act in the interest of the Charity Funds.
- b) The financial statements comply with the Financial Reporting Standard for Smaller Entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council and the relevant ward, i.e. those wards covering former Burgh areas and in terms of the Council's Code of Governance.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Reserves

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- all approved applications for grants
- all support and governance costs are covered

At 31 March 2017, the reserves of the Ormiston Trust for Institute amounted to:

- Restricted Income Funds - £220,059

Investments Per the Councils Common Good and Trust Fund investment strategy, the main balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

| | |
|------------------------------------|---|
| Charity Name | Scottish Borders Council Common Good Funds |
| Charity registration number | SC019162 |
| Business Address | Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA |

Trustees

The Trustees of this charity are the duly elected members of the Leaderdale and Melrose ward of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

Iain Gillespie

Jim Torrance

David Parker

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Auditor Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Ormiston Trust for Institute.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Shona Haslam
Trustee
Scottish Borders Council Ormiston Trust for Institute
28 June 2017

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of expenditure over income for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ | Notes |
|-----------------|--|-----------------|-------|
| 120 | Income From: Investments | 100 | 1 |
| 120 | Total Income | 100 | |
| (25,500) | Expenditure on Raising funds | (25,500) | 3 |
| (120) | Charitable activities | (100) | 2 |
| (25,620) | Total Expenditure | (25,600) | |
| (25,500) | Net Income / (Expenditure) | (25,500) | |
| | Other Recognised Gains and (Losses) | | |
| (58) | Gains/(Loss) / gain on investment assets | (23) | |
| (25,558) | Net Movement in Funds | (25,523) | |
| | Reconciliation of Funds | | |
| 271,140 | Total funds brought forward | 245,582 | |
| 245,582 | Total Funds Carried Forward | 220,059 | |

BALANCE SHEET as at 31 March 2017

| as at 31 March 2016 | | | as at 31 March 2017 | | Notes |
|------------------------|------------------|--|---------------------|------------------|-------|
| £ | £ | | £ | £ | |
| | | Fixed Assets | | | |
| 241,367 | | Tangible assets | 215,867 | | 4 |
| 3,911 | | Investments | 3,888 | | 5 |
| | 245,278 | | | 219,755 | |
| | | Current Assets | | | |
| 305 | | Short term investment in SBC loans fund. | 305 | | |
| | 305 | Total Current Assets | | 305 | |
| | 245,582 | Total Net Assets | | 220,059 | |
| | | The Funds of the Charity | | | |
| | (245,582) | Restricted income funds | (220,059) | | |
| | (245,582) | Total Charity Funds | | (220,059) | |

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on page 12 form part of these Financial Statements.

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Donations and grants are recorded as expenditure when they are approved or if approved in principle only, when final confirmation of amount is received by the applying body.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds. Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Tangible Fixed Assets and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

| 2015/16 £000 | | 2016/17 £'000 |
|-----------------|----------------------------------|------------------|
| 1 | Bank Interest Receivable | 1 |
| 119 | Income from Investment Portfolio | 99 |
| 120 | | 100 |

2 Charitable Activities during 2016/17

A single grant is made to Live Borders to maintain the property and provide the services required under the Charity terms.

3 Property Costs

The property costs consist of a depreciation charge for the use of the asset and is funded from the Restricted Funds. This is not a cash transaction.

4 Tangible Fixed Assets

The charity has a single fixed asset of the Ormiston Institute building in Melrose.

The movement in the value of Tangible Fixed Assets has been driven solely by the annual depreciation charge in 2016/17 as follows:

| | £'000 |
|---|----------------|
| Opening Balance at 1 April 2016 | 241,367 |
| Depreciation for year | 25,500 |
| Closing Balance at 31 March 2017 | 215,867 |

5 Investments

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2017 all investments were with the Newton Real Return Fund.

6 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Ormiston Trust for Institute

ADDITIONAL INFORMATION

Contact Details

For further information on the Ormiston Trust for Institute, please contact:

| | |
|------------------------------|--|
| Kirsty Robb | Telephone: 01835 – 825249 |
| Capital & Investment Manager | E-mail: krobb@scotborders.gov.uk |
| Scottish Borders Council | Council Headquarters Newtown St Boswells MELROSE TD6 0SA |

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UNAUDITED
ANNUAL REPORT AND
ACCOUNTS
SCOTTISH BORDERS COUNCIL
CHARITABLE TRUSTS

Charity Registration Number: SC043896

FOR THE YEAR TO 31 MARCH 2017

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FOREWORD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

In late 2012/13 the charitable status of 76 various funds was formally recognised under a single Charity registration.

Work commenced in 2014/15 to re-organise a number of the other registered Charities managed by Scottish Borders Council into three new Charities covering Welfare, Community Enhancement and Education. The next phase of the work of re-organising the remaining funds held within this fund is planned to be completed in 2017/18 with full consultation and approval of OSCR.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2017.

Structure

The Charity comprises some 76 varied charitable funds. Their charitable status was regulated at the end of 2012/13 by OSCR.

Charitable Purpose

The charitable purpose of this charity is to hold funds for each trust, Endowment or bequest comprising the Charity. Each of these funds have their own purpose related to the general purpose of the prevention or relief of poverty by reason of age, ill-health, disability, financial hardship or other disadvantage.

Summary of the Main Activities

A number of the funds have made donations to eligible beneficiaries during the year to 31 March 2017 totalling £8,645 including contributions through area based Education Trusts for Further Education including overseas study and travel as well as music and dance expenses.

Plans for the Future

Work to re-organise these funds will continue during 2017/18 to enable the funds to be more easily used for their charitable purposes. It is anticipated that by the end of 2017/18 all 76 trusts and bequests will be amalgated into the Scottish Borders Education, Community Enhancement or Welfare Trusts in conjunction with all stakeholders, including OSCR.

Governance and Management

Type of Governing Documents

- a) Since this Charity was formed as a holding charity for some 76 individual funds there is no overall governance document. A review is currently being undertaken into each of the constituent funds and this involves looking for governance and founding documentation.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The Local Code of Corporate Governance of Scottish Borders Council covers the governance of the Charity and is comprised of the following:



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Reserves

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- all approved applications for grants
- all support and governance costs are covered

At 31 March 2017, the reserves of the SBC Charitable Trust Funds amounted to:

Restricted Income Funds - £616,466

Investments

Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Reference and Administrative Information

| | |
|------------------------------------|---|
| Charity Name | SBC Charitable Trusts |
| Charity registration number | SC043896 |
| Business Address | Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA |

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

| | | |
|-------------------|--------------------------------|---------------------|
| Sandy Aitchison | Willie Archibald | Michelle Ballantyne |
| Stuart Bell | Catriona Bhatia | Jim Brown |
| Joan Campbell | Michael J Cook | Keith Cockburn |
| Alastair Cranston | Vicky M Davidson | Gordon Edgar |
| James A Fullerton | Graham H T Garvie | Iain Gillespie |
| John Greenwell | Bill Herd | Gavin Logan |
| Stuart Marshall | Watson McAteer (from May 2014) | John G Mitchell |
| Donald Moffat | Simon Mountford | Alexander J Nicol |
| David Parker | David Paterson | Francis Renton |
| Sandy Scott | Ron Smith | Rory Stewart |
| Jim Torrance | George Turnbull | Tom Weatherspoon |
| Bill White | | |

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Auditor Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Charitable Trusts.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Shona Haslam
Trustee
Scottish Borders Council Charitable Trusts
28 June 2017

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ | Notes |
|-----------------|--|----------------|-------|
| | Income from: | | |
| 178 | Donations and legacies | 205 | 1 |
| 28,620 | Investments | 33,244 | 2 |
| 28,799 | Total Income | 33,450 | |
| | Expenditure on: | | |
| (18,628) | Charitable activities | (8,645) | 3,7 |
| (18,628) | Total Expenditure | (8,645) | |
| 10,171 | Net Income / (Expenditure) | 24,804 | |
| | Other Recognised Gains and Losses | | |
| (8,262) | (Loss) / gain on investment assets | (2,280) | |
| 1,909 | Net Movement in Funds | 22,524 | |
| | Reconciliation of Funds | | |
| 592,033 | Total funds brought forward | 593,942 | |
| 593,942 | Total Funds Carried Forward | 616,466 | |

BALANCE SHEET as at 31 March 2017

| as at 31 March 2016 | | | as at 31 March 2017 | | Notes |
|---------------------|------------------|---|---------------------|------------------|-------|
| £ | £ | | £ | £ | |
| 559,237 | 559,237 | Fixed Assets | | | |
| | | Investments | 555,457 | | 5 |
| 34,705 | 34,705 | Current Assets | | 555,457 | 6 |
| | | Short term Investment in SBC loans fund | 61,009 | | |
| | | Total Current Assets | | 61,009 | |
| | 593,942 | Total Net Assets | | 616,466 | |
| (593,942) | | The Funds of the Charity | | | |
| | | Restricted income funds | (616,466) | | 7 |
| | (593,942) | Total Charity Funds | | (616,466) | |

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 to 14 form part of these Financial Statements.

The unaudited accounts were issued on 28 June 2017.

David Robertson CPFA
Chief Financial Officer
28 June 2017

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Donations and grants are recorded as expenditure when they are approved or if approved in principle only, when final confirmation of amount is received by the applying body.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds. Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Donations and Legacies

Restricted

The voluntary income is from a number of unregistered funds, managed by Scottish Borders Council, which grant their annual income to the Jedburgh Coal Fund.

2 Investment Income

| 2015/16 £ | | 2016/17 £ |
|---------------|----------------------------------|---------------|
| 102 | Bank Interest Receivable | 127 |
| 28,518 | Income from Investment Portfolio | 33,117 |
| 28,620 | | 33,244 |

3 Charitable Activities

The charitable activities during 2016/17 are shown in note 7 by individual fund within the charity. All expenditure incurred was for direct charitable activities.

4 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity.

5 Investments

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2017 all investments were with the Newton Real Return Fund.

6 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

7 Restricted Funds

| 2015/16 Balance | Fund | Income | Expenditure | 2016/17 Balance |
|--------------------|---------------------------------------|---------------|--------------|--------------------|
| £ | £ | £ | £ | £ |
| 425 | Alex Grieves Bequest (1) | 11 | 13 | 423 |
| 291 | Alex Grieves Bequest (2) | 7 | 9 | 290 |
| 829 | Andrew, Agnes & John Kyle | 73 | 28 | 874 |
| 3,872 | Ayton War Memorial Fund | 96 | 98 | 3,870 |
| 6,518 | Berwickshire Educational Trust | 592 | 563 | 6,546 |
| 415 | Brown Bequest | 10 | 2 | 423 |
| 297 | C W Dunnet Award | 24 | 1 | 320 |
| 767 | Campbell Calderhead Prize | 47 | 3 | 811 |
| 16,285 | Clive Craig-Brown Bequest | 390 | 63 | 16,612 |
| 2,900 | Col. Jem Richard Prize Fund | 166 | 10 | 3,056 |
| 872 | Coldstream Guards Prize | 75 | 4 | 944 |
| 62 | Coldstream War Memorial | 2 | 2 | 62 |
| 1,558 | Dalrymple's Mortification | 37 | 6 | 1,589 |
| 1,358 | Dr Milne Memorial Fund | 75 | 5 | 1,428 |
| 103,269 | Dunlop Bequest | 2,474 | 400 | 105,344 |
| 1,791 | Edgar Bequest | 43 | 7 | 1,827 |
| 3,110 | Elliot Mortification | 75 | 12 | 3,173 |
| 3,162 | Ewan Trust | 76 | 12 | 3,226 |
| 1,100 | Ex Provost Mercer's Bequest No1 | 28 | 32 | 1,095 |
| 210 | Ex Provost Mrs Laidlaw's Benifaction | 5 | 6 | 209 |
| 4,551 | F W Dobson VC | 344 | 19 | 4,876 |
| 16,832 | Ferguson Dalwhinny Fund | 403 | 65 | 17,170 |
| 2,438 | G D Gibson's Bequest | 62 | 72 | 2,428 |
| 15,609 | Geoffrey Simpson Bequest | 1,588 | 63 | 17,133 |
| 10,133 | George D Gibson's Bequest | 243 | 39 | 10,336 |
| 540 | Hans D Langmack Prize Fund | 40 | 2 | 577 |
| 1,885 | Henry Laidlaw Trust | 48 | 55 | 1,877 |
| 624 | I Wallace Bequest | 38 | 41 | 621 |
| 20,416 | J A S Henderson Memorial Scholarship | 2,787 | 58 | 23,145 |
| 2,753 | J Purves Bequest | 179 | 11 | 2,922 |
| 992 | James Robertson Trust | 62 | 3 | 1,051 |
| 84 | James West Brown's Bequest | 2 | 2 | 84 |
| 1,309 | Jane Grieve Endowmnt | 78 | 5 | 1,382 |
| 1,719 | Jean Kincaird Grieve Endowment | 96 | 6 | 1,809 |
| 10,950 | Jedburgh Coal Fund | 457 | 40 | 11,366 |
| 1,505 | Jedburgh Public Library Fund | 36 | 6 | 1,535 |
| 1,538 | John Herbertson Bequest | 39 | 45 | 1,532 |
| 240 | John Hunter's Bequest | 6 | 7 | 239 |
| 631 | John Jamieson Prize Fund | 34 | 2 | 663 |
| 96 | John Murray's Bequest | 2 | 3 | 96 |
| 243,936 | Sub-total carried to next page | 10,849 | 1,820 | 252,965 |

Scottish Borders Council Charitable Trusts
Unaudited Annual Report and Financial Statements For The Year To 31 March 2017

| | | | | |
|----------------|---------------------------------|---------------|---------------|----------------|
| 344 | Joshua Goodfellow's Bequest | 8 | 1 | 351 |
| 612 | Kelso Library Book Fund | 15 | 2 | 624 |
| 592 | Kennedy Medal Fund | 36 | 2 | 626 |
| 1,647 | Kenneth Cochrane Library Fund | 39 | 6 | 1,680 |
| 26 | Lands at Calfward | 1 | 0 | 27 |
| 263 | Longformacus Public Park | 7 | 8 | 262 |
| 3,901 | Marjoribanks Bequest | 95 | 15 | 3,981 |
| 784 | Mary Dickson Prize Fund | 58 | 3 | 839 |
| 545 | McKinley Trust | 13 | 2 | 556 |
| 21,794 | Miss A T Waldie Trust | 744 | 139 | 22,398 |
| 801 | Mr & Mrs W F Johnstone Fund | 40 | 3 | 838 |
| 416 | Mrs Adams Bequest | 9 | 1 | 424 |
| 928 | Mrs Clelland Memorial Prize | 51 | 3 | 976 |
| 2,778 | Mrs Hobkirk's Fund | 67 | 11 | 2,834 |
| 176 | Mrs M Cheetham Bequest | 4 | 5 | 175 |
| 2,776 | Murray Medal Fund | 195 | 11 | 2,961 |
| 262 | Peebles Public Library | 7 | 8 | 261 |
| 21,673 | Peeblesshire Educational Trust | 2,231 | 1,238 | 22,666 |
| 25,146 | R D Forman's Bequest | 603 | 97 | 25,651 |
| 4,683 | Raith's Mortification | 114 | 18 | 4,778 |
| 1,253 | Robert Meggit's Bequest | 32 | 37 | 1,248 |
| 53,257 | Robert Watson Fund | 1,345 | 1,564 | 53,038 |
| 97,426 | Roxburghshire Educational Trust | 9,766 | 4,979 | 102,213 |
| 3,529 | Selkirk Library Fund | 85 | 14 | 3,600 |
| 11,400 | Selkirkshire Educational Trust | 1,227 | 132 | 12,495 |
| 24,463 | Simpson Dalwhinny Fund | 1,716 | 86 | 26,093 |
| 6,372 | Sir John Robert's Bequest | 152 | 25 | 6,500 |
| 19,271 | Sir Walter Leitch Scholarship | 2,785 | 58 | 21,998 |
| 1,179 | Special Air Service Reg. Fund | 86 | 5 | 1,260 |
| 12,073 | T J S Roberts Trust | 289 | 47 | 12,315 |
| 2,328 | Thomas B Williamson Bequest | 56 | 9 | 2,375 |
| 1,229 | Walter Geddes Prize Fund | 65 | 4 | 1,290 |
| 868 | Waugh Bequest | 22 | (173) | 1,064 |
| 24,445 | William Forrester's Bequest | 617 | 718 | 24,344 |
| 464 | William Laidlaw Memorial Fund | 12 | 13 | 462 |
| 302 | Wm Brown's Bequest | 8 | 9 | 301 |
| 593,942 | | 33,450 | 10,925 | 616,466 |

Income detailed above includes dividends received from the Newton Investment and interest earned on short term investment in SBC loans fund.

Expenditure includes grants paid out but also the net unrealised loss on Newton investment during the year. These balances are required to be included in order to reconcile opening and closing balances. They were included in income last year when there was a net unrealised gain on investment.

INDEPENDENT AUDITOR'S REPORT
to the trustees of Scottish Borders Council Charitable Trusts and the

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Charitable Trusts, please contact:

| | |
|------------------------------|--|
| Kirsty Robb | Telephone: 01835 –825249 |
| Capital & Investment Manager | E-mail: krobb@scotborders.gov.uk |
| Scottish Borders Council | Council Headquarters Newtown St Boswells MELROSE TD6 0SA |

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UNAUDITED MEMBERS' REPORT AND FINANCIAL STATEMENTS

BRIDGE HOMES LLP
Registration Number: SO304775

FOR THE YEAR TO 31 MARCH 2017

Contents

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MEMBERS' ANNUAL REPORT

The Members present their Annual Report and the Financial Statements for the year ended 31 March 2017.

Reference and Administrative Information

| | |
|------------------------------------|---|
| Company Name | Bridge Homes LLP |
| Company Registration Number | SO304775 |
| Registered Office | Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA |

Designated Members

The members who held office during the year and to the date of these financial statements were as follows:

Scottish Borders Council

Scottish Future Trust Investments Ltd

The members who held office at the date of approval of this members report confirm that, so far as they are each aware, there is no relevant audit information of which Bridge Homes' auditor is unaware; and each member has taken all the steps they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that Bridge Homes' auditor is aware of that information.

| | |
|----------------|---|
| Auditor | KPMG LLP 191 West George Street Glasgow G2 2LJ |
|----------------|---|

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore remain in office.

Professional support

The Council provides the Administrative, Legal and Financial support and advice to Bridge Homes.

Principal Activity

The principal activity of Bridge Homes during the year was investment in mid-market residential property for domestic rental to meet an identified social need within the Scottish Borders.

Policy with respect to members' drawings and subscription and repayments of amounts subscribed or otherwise contributed by members

1. Cash received by Bridge Homes, excluding property disposal proceeds, will be allocated firstly to pay any operating costs, secondly in payment of any accrued interest charges on loan advances, thirdly to reimburse any amounts paid out under the Scottish Government guarantee (see below) and fourthly to establish and maintain the required Reserve Account balance. Any residual balances after making the above payments will be held to apply in early repayment of loan advances. Such balances will not be distributed without the unanimous approval of members and where any payment under the Facility Agreement (between Bridge Homes and Scottish Borders Council) has not been made in accordance with its terms.
2. Cash received from property disposals will be allocated firstly to reimburse any amounts paid out under the Scottish Government guarantee, secondly to pay any operating costs relating to the property disposed, thirdly in payment of any accrued interest charges on loan advances, fourthly to establish and maintain the Reserve Account balance, fifthly to repay any loan principal, sixth to pay any residual disposal proceeds to Scottish Borders Council and finally, following disposal of the final property, to repay the initial capital.

Business Review

Background

Scottish Borders Council (the Council) in partnership with Scottish Futures Trust Investments Ltd (SFT) have established a Council Led House Building Programme (National Housing Trust (NHT) Local Authority (LA) Variant in order to deliver more affordable housing in the Scottish Borders in line with the Local Housing Strategy. This NHT LA Variant, Bridge homes LLP aims to deliver up to 200 homes for mid-market rent.

Bridge Homes is 99.999% owned by the Council and is financed under a Facility Agreement with the Council to borrow up to £18.8m along with a £3.3m contribution from the Councils' Affordable Housing Investment Budget.

The Scottish Government provides a guarantee of rent to cover the loan of up to £3,000 per housing unit delivered.

SFT monitors the projects as a result of the Scottish Government guarantee for the loans.

Governance

The Bridge Homes Board has been established with 2 Council Senior Officers and 1 SFT Senior Officer on the Board. The Board meets quarterly and the financial viability of projects require to be signed off by all 3 Directors.

A Project Board, supported through the Council, has been established and meets regularly to oversee the development and delivery of the initiative. A Project Team, consisting of officers from the Council, has also been established to identify properties, secure property management service providers, develop systems and deliver the project.

Activity Summary

During 2016/17, Bridge Homes acquired additional programmed properties at Croft Field Court, Denholm [8 x 2 bedroom houses], Henderson's Court, Kelso [8 x 2 bedrooomed flats], and Waverley Road, Innerleithen [6 x 2 bedrooomed flats]. This increased Bridge Homes' property portfolio up to 45 units. These are all now being managed by Orchard and Shipman on behalf of Bridge Homes.

The managing agent's performance is being monitored by Council Officers, and no issues have been identified.

Council Officers are currently negotiating the anticipated purchase of 4 flats in Peebles which are currently under construction. Subject to market conditions it is hoped that these will be purchased upon completion in late 2017/18.

Unfortunately, the Developer delivering the 7 unit project at Lilliesleaf has gone into liquidation, so it is now considered very unlikely that this project will complete as intended. Council Officers are dealing with the Administrator seeking to recover the deposit paid by Bridge Homes.

As a result of increasing labour and materials costs, fewer financially viable projects are being negotiated and agreed, and potential future pipeline unit numbers are decreasing sharply. Currently 2 sites are classed as being monitored which could potentially deliver 15 units, plus a further 3 sites capable of potentially 30 units are classed as being open. The initiative deadline for unit completions remains 31 March 2019 and Council Officers are now considering the likelihood of these 5 sites delivering additional completed units prior to this deadline.

This report was signed on behalf of the Members by

David Robertson CPFA
Designated Member
Scottish Borders Council
28 June 2017

STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE MEMBERS' REPORT AND FINANCIAL STATEMENTS

The members are responsible for preparing the Members' report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial period. Under that law the members have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that year. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with those regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ | Notes |
|----------------|--|----------------|----------|
| | | | |
| 81,472 | Turnover | 164,504 | 1 |
| (17,205) | Cost of Sales | (41,045) | 2 |
| | | | |
| 64,267 | Gross Profit | 123,459 | |
| | | | |
| (34,451) | Administrative Expenses | (20,569) | 3 |
| | | | |
| 29,816 | Operating Profit/(Loss) | 102,890 | |
| | | | |
| (37,663) | Interest Payable & Similar Expenses | 82,146 | 4 |
| | | | |
| (7,847) | Profit/(Loss) For The Financial Year Available For Discretionary Division Among Members | 20,744 | 5 |
| | | | |
| | Other Comprehensive Income | | |
| 0 | Revaluation Gain/(Loss) on Property | 609,140 | |
| | | | |
| (7,847) | Total Comprehensive Income | 629,884 | |

The LLP's turnover and expenses all relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ |
|----------------|---|---------------|
| (7,847) | Profit/(Loss) For The Financial Year | 20,744 |
| (7,847) | Total Recognised Gains/(Losses) For The Financial Year | 20,744 |

BALANCE SHEET as at 31 March 2017

| 2015/2016 £ | | 2016/2017 | | Notes |
|------------------|---|----------------|------------------|-------|
| | | £ | £ | |
| | Fixed Assets | | | |
| 2,667,388 | Property, Plant and Equipment | 5,863,810 | | 6 |
| 2,667,388 | | | 5,863,810 | |
| | Current Assets | | | |
| 99,589 | Debtors | 93,413 | | 7 |
| 15,020 | Cash at Bank | 30,282 | | |
| 114,609 | | 123,695 | | |
| | Creditors | | | |
| (29,638) | Amounts falling due within 1 year | 17,980 | | 8 |
| | | | | |
| 84,972 | Net Current Assets/(Liabilities) | | 105,716 | |
| | | | | |
| 2,752,360 | Net Assets/(Liabilities) attributable to Members | | 5,969,526 | |
| | | | | |
| | Represented By: | | | |
| | | | | |
| 2,343,320 | Loans and Other Debts due to Members | | 4,600,602 | 9 |
| | | | | |
| | Members' Other Interests | | | |
| 429,002 | Capital Account | 759,002 | | 10 |
| (19,962) | Profit and Loss Reserve | 782 | | |
| | Revaluation Reserve | 609,140 | | |
| | | | 1,368,924 | |
| | | | | |
| 2,752,360 | Total Members' Interests | | 5,969,526 | |

The Accounting Policies on pages 9 and 10 and the Notes on pages 11 to 13 form part of these Financial Statements.

These financial statements were approved by the members and authorised for issue on 28 June 2017 and are signed on their behalf by:

David Robertson CPFA
 Designated Member
 Scottish Borders Council
 28 June 2017

CASH FLOW for the year ended 31 March 2017

| 2015/16 £ | | 2016/17 £ |
|-----------------|--|---------------|
| | Reconciliation of Profit/(Loss) to | |
| | Net Cash Flow from Operating Activities | |
| (7,847) | Profit/(Loss) for the Financial Year | 20,744 |
| 21,380 | Adjustments to Profit/Loss for Non Cash Movements | |
| 0 | Initial Members Capital | 0 |
| (92,006) | (Increase)/Decrease in Debtors | 6,176 |
| 5,856 | Increase/(Decrease) in Creditors due within 1 year | (11,658) |
| (72,617) | Net Cash Inflow/(Outflow) from Operating Activities | 15,262 |

| 2015/16 £ | | 2016/17 £ |
|--------------------|--|--------------------|
| | Cash Flow Statement | |
| (72,617) | Net Cash Inflow/(Outflow) from Operating Activities | 15,262 |
| | | |
| | Investing Activities | |
| (1,398,989) | Purchase of investment property | (2,587,282) |
| 125,600 | Capital received | 330,000 |
| (1,273,389) | Net Cash Inflow/(Outflow) from Investing Activities | (2,257,282) |
| | | |
| | Financing Activities | |
| 1,356,940 | Cash received from loans and other borrowing | 2,257,282 |
| 1,356,940 | Net Cash Inflow/(Outflow) from Financing Activities | 2,257,282 |
| | | |
| 10,934 | Increase / (Decrease) in Cash | 15,262 |
| | | |
| 10,934 | Movement in Cash in Period | 15,262 |

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation

The financial statements have been prepared under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Financial Reporting Standards for Smaller Entities (effective April 2008) and the Statement of Recommended Practice: Accounting by Limited Liability Partnerships (effective January 2010) issued by the CCAB (Consultative Committee of Accountancy Bodies).

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from tenants are accounted for as income at the date the relevant service is provided.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Interest payable on capital advances is accounted for based on the applicable 4^{1/2} - 5 year PWLB (Public Works Loan Board) fixed interest rate applicable at the date the borrowing was initially incurred.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the revenue account, unless they properly represent capital receipts or capital expenditure.

Turnover

Turnover represents invoiced rental income from tenanted investment properties. This rental income is exempt from value added tax.

Tangible Fixed Assets

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Property, Plant and Equipment is shown at most recent valuation. Any aggregate surplus or deficit arising from changes in market value is transferred to a revaluation reserve.

Under the Revaluation Policy, Property, Plant and Equipment are subject to revaluation every year. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Cash and Liquid Assets

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Liquid resources comprise term deposits of less than one year.

Inventories

Any inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Support Services

The costs of support services provided by Scottish Borders Council are charged to Bridge Homes LLP in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP).

NOTES TO THE FINANCIAL STATEMENTS

1 Turnover

| 2015/16 £ | | 2016/17 £ |
|---------------|---------------|----------------|
| 72,540 | Rental Income | 155,093 |
| 8,932 | Revenue Grant | 9,411 |
| 81,472 | | 164,504 |

2 Cost of Sales

| 2015/16 £ | | 2016/17 £ |
|---------------|-----------------------|---------------|
| 15,650 | Management Charges | 40,619 |
| 1,427 | Insurance | 0 |
| 0 | Landlord Registration | 218 |
| 128 | Utilities | 208 |
| 17,205 | | 41,045 |

3 Administrative Expenses

| 2015/16 £ | | 2016/17 £ |
|---------------|-----------------------|---------------|
| 4,997 | Accountancy and Legal | 11,007 |
| 800 | Professional Fees | 0 |
| 21,380 | Revaluations | 0 |
| 3,935 | Audit | 5130 |
| 3,030 | Estates and Housing | 4,015 |
| 309 | Miscellaneous | 418 |
| 34,451 | | 16,069 |

4 Interest Payable & Similar Charges

| 2015/16 £ | | 2016/17 £ |
|---------------|-------------------------------------|---------------|
| 42 | Bank Charges | 192 |
| 37,621 | Interest Payable to Local Authority | 81,955 |
| 37,663 | | 82,146 |

5 Members' Interests

| 2015/16 £ | | 2016/17 £ |
|--------------|--|---------------|
| 7,847 | Scottish Borders Council | 20,744 |
| - | Scottish Futures Trust Investments Ltd | - |
| 7,847 | | 20,744 |

6 Property, Plant and Equipment

| 2015/16 £ | | 2016/17 £ |
|------------------|-------------------|------------------|
| 1,398,989 | Additions at Cost | 2,587,282 |
| (21,380) | Revaluations | 609,140 |
| 2,667,388 | NBV at 31 March | 5,863,810 |

7 Debtors

| 2015/16 £ | | 2016/17 £ |
|---------------|---------------------------------|---------------|
| 5,550 | Unpaid Rental Income | 0 |
| 0 | Grant for Central Support Costs | 9,411 |
| 94,039 | Other Debtors | 84,002 |
| 99,589 | | 93,413 |

8 Creditors: Amounts Falling Due Within One Year

| 2015/16 £ | | 2016/17 £ |
|---------------|-------------------------------------|---------------|
| 433 | Management Charges | 0 |
| 800 | Professional Fees | 0 |
| 0 | Insurance | 0 |
| 0 | Utilities | 0 |
| 3,000 | Audit | 4,500 |
| 0 | Accountancy | 2,349 |
| 0 | Legal Fees | 6,968 |
| 0 | Miscellaneous | 4,163 |
| 25,405 | Interest Payable to Local Authority | 0 |
| 29,638 | | 17,980 |

9 Loans & Other Debts Due To Members

| 2015/16 £ | | 2016/17 £ |
|--------------|---------------------------|--------------|
| 1,356,940 | Loan from Local Authority | 2,257,282 |

10 Members' Capital

| 2015/16 £ | | 2016/17 £ |
|----------------|--|----------------|
| | Initial Capital - Scottish Borders Council | 1 |
| | Initial Capital – Scottish Futures Trust Investments Ltd | 1 |
| 125,600 | Capital Grant - Scottish Borders Council | 330,000 |
| 125,600 | | 330,002 |

11 Reserves

| | Members Capital (Classified As Equity) £ | Profit & Loss Reserve £ | Revaluation Reserve £ | Loans & Other Debts Due To/From Members £ | Total £ |
|---|--|----------------------------------|-----------------------------|--|------------------|
| Balance at 1 April 2016 | 429,002 | (19,962) | 0 | 2,343,320 | 2,752,360 |
| Profit/(Loss) For The Year Available for Discretionary Division Among Members | | 20,744 | | | 20,744 |
| Loan Funding Provided By Members | | | | 2,257,282 | 2,257,282 |
| Revaluations | | | 609,140 | | 609,140 |
| Capital Introduced By Members | 330,000 | | | | 330,000 |
| Balance at 31 March 2017 | 759,002 | 782 | 609,140 | 4,600,602 | 5,969,526 |

12 Related Party Transactions

Throughout the year Bridge Homes was controlled by the members. During the year, Bridge Homes entered into the following transactions with Scottish Borders Council:

| | Transaction | Debtor/ (Creditor) At 31 March 2017 |
|------------------------|------------------|---|
| | £ | £ |
| Loan | 2,257,282 | |
| Capital Funding | 330,002 | - |
| Revenue Grant | | 9,411 |
| Service Charge | | (9,411) |
| Loan Interest | 81,995 | |
| | 2,669,339 | |

13 Ultimate Controlling Party

The Bridge Homes is controlled by the Designated Members as detailed on page 2.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIDGE HOMES LLP

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CONTACT INFORMATION

For further information on Bridge Homes LLP, please contact

| | |
|---------------------------|--|
| Lynn Mirley | Telephone: 01835 – 825016 |
| Corporate Finance Manager | E-mail: lmirley@scotborders.gov.uk |
| Scottish Borders Council | Council Headquarters Newtown St Boswells MELROSE TD6 0SA |

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Scottish Borders Supports LLP

Members' report and financial statements

Registered number SO305176

For the period ended 31 March 2017

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Members' report

The members present their annual report and audited financial statements for the year ended 31 March 2017.

Principal Activity

The principal activity of Scottish Borders Supports LLP (SB Supports) is the provision of Adult Social Care services.

These financial statements represent the results of the year from 1 April 2016 until 31 March 2017.

The partnership employs 10 staff (10 full time equivalents) in 10 positions.

Designated Members

SB Supports LLP had two members during the period, Scottish Borders Council and SBC Nominees Limited, both of whom are designated members.

Business Review

Governance

The Board of Management is subject to the provision of the Members Agreement and neither the LLP nor the Board of Management shall make decisions in respect of the reserved matters set out in the agreement.

The Board of Management consists of:

- a) The Managing Director
- b) The Finance and Commercial Director
- c) The Operations Director
- d) The Chair

In addition up to five additional persons can be assumed to the Board of Management, where the persons have skills, knowledge or experience deemed to be useful to the Board of Management in fulfilling its obligations and functions to the LLP and its members. There are currently two additional persons on the Board of Management.

The meetings of the Board of Management are held on a monthly basis. The LLP meets with Scottish Borders Council quarterly at the Council's Limited Liability Partnership Strategic Governance Group Committee. In addition the Chief Executive of Scottish Borders Council may at any time invite the LLP Officers to attend a meeting of the Council's Corporate Management Team to discuss such matters related to the Members Agreement and the Services of the Business.

The overall business structure remained consistent in 2016/17.

Members' report *(continued)*

Financial Results for the Period

In the period ended 31 March 2017, SB Supports LLP generated a loss of £310k. No profit distribution was made to members for the period. Net current assets were £20k and total net liabilities attributable to members were (£20k). SB Supports LLP's financial statements have been prepared on a going concern basis.

Overall SB Supports performed as expected in its original Business Case for its second year of trading in being able to deliver a contribution to Scottish Borders Council of £1.127m.

Risk Management

SB Supports LLP recognises the importance of the management of corporate risk and applies appropriate corporate governance to ensure it is successfully monitored and managed.

The overall pressure on public finances whilst there is increasing demand for services continues to be the dominant risk to the LLP. Budget pressures and service reduction within Scottish Borders Council has an effect as the LLP provides key services to this main client group. SB Supports continues to monitor the change in business operation and address the mitigation of risk proactively.

Cash flow management procedures are in place to ensure that resources are managed effectively. This management of resources has ensured the company has never been required to use a bank overdraft facility.

SB Supports has adopted Scottish Borders Council's (SBC's) corporate risk policy to embed risk management into its business practices. During 2015 SB Supports Senior Management attended SBC's refreshed corporate risk management training course in recognition that risk management is part of their job. SB Supports has developed its risk register to reflect risks and mitigations associated with the delivery of its 2017-2022 Business Plan. The risk register will be regularly reviewed by its Senior Management Team and Board of Management as part of its performance monitoring processes. Scottish Borders Council's Internal Audit function through a Service Level Agreement carries out regular audits of business functions and areas of risk whose findings are reported to the Board of Management.

The business is subject to further enhanced governance procedures and it reports to the Council's LLP Strategic Governance Group.

Employees & Stakeholders

SB Supports LLP is an Equal Opportunities employer and is committed to eliminating discrimination, victimisation, bullying and harassment amongst our workforce. Our Equal Opportunities Policy and Equality and Diversity Programme are in place to ensure our staff will be treated fairly and with dignity and respect at all times.

Members' report (continued)

Our commitment to equality is supported by a legal duty to provide all services and employment opportunities fairly and to adhere to all relevant codes of practice. We welcome our responsibilities as an employer, as a provider of services, and value the legislation that supports our policy commitments to equality and fairness.

Consultation with stakeholders is a key element in ensuring that continuous improvement in service provision is achieved and maintained. SB Supports LLP is responsive to the needs of its communities, citizens, customers and other stakeholders, and its plans and priorities are based on such an understanding. Involving key stakeholders in the decision-making process will continue to help to identify future policy and service priorities, and improvements that are required.

Transactions with Members

No remuneration of members occurred during the period. The members' share in the profit or loss for the period is accounted for as an allocation of profits with unallocated profits and losses included within 'other reserves'. SB Supports LLP transacts with one of its members, Scottish Borders Council. These transactions are covered by Service Provision Agreements agreed on 1st April 2015.

Activity Summary

SB Cares supported 12,000 clients, families and carers in 2016/17 through the provision of its adult social cares services by:

- Delivering 821,000 visits to enable people to remain in their own homes
- Issued 45,000 pieces of ability equipment to support people live more independently
- Supported 3,200 clients maintain independence with 24 hour monitored personal alarms
- Provide 24 hour support to 190 clients in a care home environment with for those people with higher level needs
- Supported 150 clients in our day services enabling people to remain at home and providing respite to families and carers

The Board of Management delivery a number of the objectives set out in the 2016/17 business plan during:

- *Improved the quality of our services with 84% of services receiving Care Inspectorate grades of good or above*
- *establish its self as provider of last resort stepping in on behalf of Scottish Borders Council to provide emergency support to vulnerable clients*
- *to deliver efficient and effective services through new ways of working by sharing staff and expertise across services types*

Members' report (continued)

- *create the ability to provide and sell a range of services to people who do not meet the Council's current eligibility criteria launching our direct sales of personal alarms and ability equipment*
- *identifying and deliver recurring procurement savings through a new procurement strategy for the business working in partnership with our suppliers*
- *are on track to deliver a contribution to the Scottish Borders Council of £1.127m for 2016/17*

SB Cares Board of Management has set out its Business Plan for 2017-2022 with the focus on delivering our three strategic aims with 6 key priorities.

Strategic Aims

- 1. Quality – have a team of staff who can deliver seamless, high quality care and support to every client*
- 2. Efficiency – to develop our staff, resources and finances as efficiently and effectively as possible, ensuring best value*
- 3. Business growth – to expand and grow the services we provided for the people of the Scottish Borders and generate income to invest in future care services*

Our Priorities:

1. Invest in our staff
2. Make our services as efficient and effective as possible
3. Modernise our services through technology
4. Grow and develop our business
5. Build on key partnerships
6. Develop excellent governance

Disclosure of information to auditor

The members who held office at the date of approval of this members' report confirm that, so far as they are aware, there is no relevant audit information of which the Partnership's auditor is unaware; and each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be appointed and KPMG LLP will therefore be in office.

The financial statements were authorised for issue on x September 2017.

Approved by the members and signed on x September 2017 by

For and on behalf of
Scottish Borders Supports LLP
Designated member

Registered Office:-

SB Cares
Bristol Building
Newtown St Boswells
TD60SA

Independent auditor's report to the members of Scottish Borders Supports LLP

We have audited the financial statements of Scottish Borders Supports LLP for the period ended 31 March 2016 set out on pages 10 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework. This report is made solely to the members of the limited liability partnership (LLP), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 7 the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- *give a true and fair view, of the state of affairs of the LLP as at 31 March 2016 and of its loss for the period then ended;*
- *have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and*
- *have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.*

***Independent auditor's report to the members of Scottish Borders Supports
LLP (continued)***

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- *adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or*
- *the financial statements are not in agreement with the accounting records and returns; or*
- *we have not received all the information and explanations we require for our audit.*

Hugh Harvie

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court

20 Castle Terrace

Edinburgh

EH12EG

Profit and Loss Account

For the period ended 31 March 2016

Period ended 31 March

| | Notes | 2017 £000 | 2016 £000 Restated |
|--|-------|------------------|---------------------------------|
| Turnover | 2 | 17,538 | 17,521 |
| Cost of sales | | <u>(17,075)</u> | <u>(16,722)</u> |
| Gross profit | | 463 | 799 |
| Administrative expenses | | <u>(779)</u> | <u>(516)</u> |
| Operating (loss)/profit | | (316) | 283 |
| Interest receivable and similar income | 5 | <u>6</u> | <u>7</u> |
| (Loss)/profit on ordinary activities before and after taxation being (loss)/ profit for the financial period before members' remuneration and profit shares | | <u>(310)</u> | <u>290</u> |
| (Loss)/profit for the financial period available for discretionary division among members | | <u>(310)</u> | <u>290</u> |

All of the LLP's operations are classed as continuing.

Other Comprehensive Income

For the year ended 31 March 2017

| | Notes | 2017 £000 | 2016 £000 Restated |
|---|-------|--------------|---------------------------------|
| (Loss)/profit for the year available for discretionary division among members | | (310) | 290 |
| Other comprehensive income for the period, net of income tax | | | |
| Total comprehensive income for the period | | <u>(310)</u> | <u>290</u> |

The accompanying notes form integral part of these financial statements.

Balance Sheet

at 31 March 2017

| | Note | 2017 £000 | 2016 £000 Restated |
|---|------|----------------|--------------------------|
| Fixed assets | 7 | <u>678</u> | <u>342</u> |
| Current assets | | | |
| Stock | 8 | 74 | 31 |
| Debtors | 9 | 221 | 782 |
| Cash at bank and in hand | | <u>2,946</u> | <u>1,408</u> |
| | | 3,241 | 2,221 |
| Creditors: amounts falling due within one year | 10 | <u>(3,939)</u> | <u>(2,273)</u> |
| Net current assets/(liabilities) | | <u>(20)</u> | <u>(52)</u> |
| Total assets less current liabilities | | <u>(20)</u> | <u>290</u> |
| Net assets/(liabilities) | | <u>(20)</u> | <u>290</u> |
| Members' other interests | | | |
| Members' capital | | - | - |
| Other reserves | | <u>(20)</u> | <u>290</u> |
| Total other reserves | | <u>(20)</u> | <u>290</u> |

The accompanying notes form an integral part of these financial statements.

These financial statements were approved by the members on x September 2017 and were signed on its behalf by:

For and on behalf of
Scottish Borders Supports LLP
Designated member

Company registered number: **SO305176**

Statement of Change in Net Assets Attributable to Partners

For the year ended 31 March 2017

| | Members' Capital | Other Reserves | Total Other Reserves | Total Members' Interest |
|---|------------------|----------------|----------------------|-------------------------|
| | £000 | £000 | £000 | £000 |
| Balance at 31 March 2016 as previously reported | - | (25) | (25) | (25) |
| Restatement due to change of accounting policy (see note 1) | - | 315 | 315 | 315 |
| Balance at 31 March restated | - | <u>290</u> | <u>290</u> | <u>290</u> |
| Movement in the period | - | <u>(310)</u> | <u>(310)</u> | <u>(310)</u> |
| Balance at 31 March 2017 | - | <u>(20)</u> | <u>(20)</u> | <u>(20)</u> |

The accompanying notes form an integral part of the financial statements

Notes *(forming part of the financial statements)*

1 - Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Limited Liability Partnership's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules.

The financial statements have been prepared under FRS101 *Reduced Disclosure Framework*.

The LLP's financial statements are fully consolidated in the group financial statements prepared and published by Scottish Borders Council. This entitles the LLP to use the exemption from the preparation of a cash flow statement as stated in International Accounting Standard 1 'cash flow statements' ("**IAS1**").

As the LLP is a wholly owned subsidiary of Scottish Borders Council, the LLP has taken advantage of the exemption contained in International Accounting Standard 24 'related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group as related parties.

Going concern

The LLP's business activities, together with the factors likely to affect its future development, performance and position, are set out in the members' report on page 3. The members have a reasonable expectation that despite there being a negative net worth at the end of the year the LLP has adequate resources to continue in operational existence for the foreseeable future with a service provision agreement in place for Adult Social Cares service from Scottish Borders Council, until 2020. Thus the members continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Members' remuneration and allocation of profits

Members are not remunerated by the LLP. A member's share in the profit or loss for the accounting period is accounted for as an allocation of profits. Unallocated profits and losses are included within 'other reserves'.

Members' capital

The capital requirements of the LLP are determined from time to time by the members. No interest is paid on capital.

Value added tax

The LLP is registered for VAT purposes. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Notes (continued)

Fixed assets

Assets purchased in excess of the de minimis level of £1,000 or grouped £5,000 are included in the balance sheet as fixed assets. Depreciation is applied in the period from 1 April in the financial year following their acquisition.

Depreciation is charged on a straight line basis and the useful life of an asset is deemed to be:

| | |
|--------------------------|------------|
| I.T. Systems | 3 years |
| Plant and Equipment | 5 years |
| Rehabilitation Equipment | 5-10 years |

Assets disposed of, or taken out of use will be fully written off in period of disposal or removal from use.

Fixed Assets-Prior Year Adjustment

The accounts have been restated to incorporate the effect of a change in accounting policy with regard to rehabilitation equipment. This equipment is held for distribution to clients for use to maintain independence in their own homes.

This expenditure was previously expensed through the profit and loss account. The Board of Management have reviewed the policy and have agreed that it is more appropriate to capitalise some of this expenditure in the balance sheet and apply depreciation over the estimated economic useful life of the asset. This provides a more accurate reflection of the resources deployed by SB Supports LLP in supplying its services.

| | |
|--|------------|
| Summary of the prior year accounting impact | £000s |
| Increase in fixed assets | <u>315</u> |
| Prior year adjustment-increase in members' reserve | <u>315</u> |

Taxation

Taxation on all partnership profits is solely the liability of individual members. Consequently neither taxation nor related deferred taxation arising in the LLP are accounted for in these financial statements.

Income recognition

Income is recognised in the accounting period to which it relates. Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. Income received in advance is included in the balance sheet within creditors: amounts falling due within one year.

Notes (continued)

Stock

Stock is valued at the lower of cost and net realisable value in line with the requirements of International Accounting Standard 2 "Inventories" ("IAS2")

Leases

Operating lease rentals are charged to the Profit & Loss Account on a straight line basis over the period of the lease.

2 Turnover

Turnover represents the invoiced value of goods and services supplied under the principal activities of the LLP.

3 Staff numbers and costs

The average Full Time Equivalent number of persons employed by the LLP during the period, analysed by category, was as follows:

Number of employees (FTE)

| | 2017 | 2016 |
|----------------|-------------|-------------|
| | £000 | £000 |
| Administration | 11 | <u>10</u> |

Staff costs for the above persons were:

| | | |
|-----------------------|------------|------------|
| Wages and salaries | 419 | 331 |
| Social security costs | 43 | 30 |
| Pension costs | <u>56</u> | <u>44</u> |
| | <u>518</u> | <u>405</u> |

4 Expenses and auditors' remuneration

Included in the (loss)/profit for the year are the following

| | 2017 | 2016 |
|-------------------------------------|-------------|-------------|
| | £000 | £000 |
| Audit of these financial statements | <u>22</u> | <u>15</u> |

Notes (continued)

5 Other interest receivable and similar income

| | 2017 | 2016 |
|---------------------------|-------------|-------------|
| | £000 | £000 |
| Other interest receivable | <u>6</u> | <u>7</u> |

6 Particulars of members

The number of members of the Limited Liability Partnership for the period was two. No remuneration was paid to either member.

Notes (continued)

7 Fixed assets

| | IT Systems £000 | Plant & Equipment £000 | Rehabilitation equipment £000 | Total £000 |
|---|--------------------|------------------------------|-------------------------------------|---------------|
| At 31 March 2016 as previously stated | 15 | 12 | | 27 |
| Recognition of assets due to change in accounting policy (see note 1) | | | 315 | 315 |
| At 31 March 2016 as restated | <u>15</u> | <u>12</u> | <u>315</u> | <u>342</u> |
| Additions | | 57 | 313 | 370 |
| At 31 March 2017 | <u>15</u> | <u>69</u> | <u>628</u> | <u>712</u> |
| Depreciation | | | | |
| At 31 March 2016 | | | | |
| Charge for the year | <u>4</u> | 3 | 28 | 35 |
| At 31 March 2016 | <u>4</u> | <u>3</u> | <u>28</u> | <u>35</u> |
| Net book value | | | | |
| At 31 March 2016 | <u>15</u> | <u>12</u> | <u>315</u> | <u>342</u> |
| At 31 March 2017 | <u>11</u> | <u>66</u> | <u>600</u> | <u>677</u> |

Notes (continued)

8 Stock

| | 2017 | 2016 |
|-------------------------------|-------------|-------------|
| | £000 | £000 |
| Raw materials and consumables | 74 | 31 |

9 Debtors

| | 2017 | 2016 |
|------------------------------------|-------------|-------------|
| | £000 | £000 |
| Trade debtors | 21 | 39 |
| Amounts owed by group undertakings | 55 | 576 |
| Prepayments and accrued income | <u>145</u> | <u>167</u> |
| | <u>221</u> | <u>782</u> |

10 Creditors: amounts falling due within one year

| | 2017 | 2016 |
|------------------------------------|--------------|--------------|
| | £000 | £000 |
| Trade creditors | 18 | 38 |
| Amounts owed to group undertakings | 366 | 415 |
| Other creditors | 706 | 542 |
| Value added tax | 507 | 839 |
| Accruals and deferred income | <u>2,342</u> | <u>440</u> |
| | <u>3,939</u> | <u>2,273</u> |

11 Post Balance Sheet Events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements.

12 Ultimate parent organisation

The LLP's ultimate parent undertaking is Scottish Borders Council, one of its designated members, as this is the largest group into which the results of the LLP are consolidated. The consolidated group financial statements of Scottish Borders Council may be obtained from its registered office at the Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

Scottish Borders Cares LLP

Members' report and financial statements

Registered number SO305156

For the year ended 31 March 2017

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The members present their annual report and audited financial statements for the period ended 31 March 2017.

Principal Activity

The principal activity of Scottish Borders Cares LLP (SB Cares) is the provision of Adult Social Care services.

These financial statements represent the results of the year of trading from 1 April 2016 until 31 March 2017.

The partnership employs **xx** staff (**xx** full time equivalents) in **xx** positions with a number of staff having more than one role.

Designated Members

SB Cares LLP had two members during the period, Scottish Borders Council and SBC Nominees Limited, both of whom are designated members.

Business Review

Business Structure

The Board of Management is subject to the provision of the Members Agreement and neither the LLP nor the Board of Management shall make decisions in respect of the reserved matters set out in the agreement.

The Board of Management is employed by Scottish Borders Supports LLP and consists of:

- a) The Managing Director
- b) The Finance and Commercial Director
- c) The Operations Director
- d) The Chair

In addition up to five additional persons can be assumed to the Board of Management, where the persons have skills, knowledge or experience deemed to be useful to the Board of Management in fulfilling its obligations and functions to the LLP and its members. There are currently two additional persons on the Board of Management.

The meetings of the Board of Management are held on a monthly basis. The LLP meets with Scottish Borders Council quarterly at the Council's Limited Liability Partnership Strategic Governance Group Committee. In addition the Chief Executive of Scottish Borders Council may at any time invite the LLP Officers to attend a meeting of the Council's Corporate Management Team to discuss such matters related to the Members Agreement and the Services of the Business.

The overall business structure remained consistent in 2016/17.

Members' report (*continued*)

Financial Results for the Period

In the year ended 31 March 2017, SB Cares LLP generated a loss of £2.675m. This result includes the adjustments required in respect of **International Accounting Standards 19 (IAS 19)** 'retirement benefits' totalling £2.627m. The IAS 19 adjustment is met through a transfer between the pension reserve and other reserves within the Reconciliation of Movement on Members' Funds.

The underlying, pre-**IAS 19** results of SB Cares LLP generated a loss of £49k for the year after accounting for a movement in the annual leave accrual of £50k.

Overall SB Cares performed as expected for the year of trading delivering services through its contract with Scottish Borders Supports LLP.

SB Cares LLP's financial statements have been prepared on a going concern basis.

Risk Management

SB Cares LLP recognises the importance of the management of corporate risk and applies appropriate corporate governance to ensure it is successfully monitored and managed.

The overall pressure on public finances continues to be the dominant risk to the LLP. Budget pressures and service reduction within Scottish Borders Council has an effect as the LLP provides key services to this main client grouping. SB Cares continues to monitor the change in business operation and address the mitigation of risk proactively.

Cash flow management procedures are in place to ensure that resources are managed effectively.

SB Cares has adopted Scottish Borders Council's (SBC's) corporate risk policy to embed risk management into its business practices. During 2015 SB Cares Senior Management attended SBC's refreshed corporate risk management training course in recognition that risk management is part of their job. SB Cares has developed its risk register to reflect risks and mitigations associated with the delivery of its 2017-2022 Business Plan. The risk register will be regularly reviewed by its Senior Management Team and Board of Management as part of its performance monitoring processes. Scottish Borders Council's Internal Audit function through a Service Level Agreement carries out regular audits of business functions and areas of risk whose findings are reported to the Board of Management.

The business is subject to further enhanced governance procedures and it reports to the Council's LLP Strategic Governance Group.

Members' report (*continued*)

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Consultation with stakeholders is a key element in ensuring that continuous improvement in service provision is achieved and maintained. SB Cares LLP is responsive to the needs of its communities, citizens, customers and other stakeholders, and its plans and priorities are based on such an understanding. Involving key stakeholders in the decision-making process will continue to help to identify future policy and service priorities, and improvements that are required.

SB Cares LLP utilises a number of methods to communicate with staff. These include:
Staff Newsletters -regularly keep staff updated with company information and news.
Staff Briefings - face to face performance meetings with staff.
Staff Roadshows - face to face information sharing sessions with frontline staff.

Transactions with Members

No remuneration of members occurred during the period. The members' share in the profit or loss for the period is accounted for as an allocation of profits with unallocated profits and losses included within 'other reserves'. SB Cares LLP transacts with SB Supports LLP not with Members.

These transactions are covered by a five year Service Provision Agreements between SB Cares LLP and SB Supports which commenced on 1st April 2015.

Members' report (*continued*)

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- Provide 24 hour support to 190 clients in a care home environment with for those people with higher level needs
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- establish its self as provider of last resort stepping in on behalf of Scottish Borders Council to provide emergency support to vulnerable clients
- to deliver efficient and effective services through new ways of working by sharing staff and expertise across services types
- create the ability to provide and sell a range of services to people who do not meet the Council's current eligibility criteria launching our direct sales of personal alarms and ability equipment
- identifying and deliver recurring procurement savings through a new procurement strategy for the business working in partnership with our suppliers
- are on track to deliver a contribution to the Scottish Borders Council of £1.127m for 2016/17

SB Cares Board of Management has set out its Business Plan for 2017-2022 with the focus on delivering our three strategic aims with 6 key priorities.

Strategic Aims

1. Quality – have a team of staff who can deliver seamless, high quality care and support to every client
2. Efficiency – to develop our staff, resources and finances as efficiently and effectively as possible, ensuring best value
3. Business growth – to expand and grow the services we provided for the people of the Scottish Borders and generate income to invest in future care services

Members' report (continued)

Our Priorities:

1. Invest in our staff
2. Make our services as efficient and effective as possible
3. Modernise our services through technology
4. Grow and develop our business
5. Build on key partnerships
6. Develop excellent governance

Disclosure of information to auditor

The members who held office at the date of approval of this members' report confirm that, so far as they are aware, there is no relevant audit information of which the Partnership's auditor is unaware; and each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

The financial statements were authorised for issue on x September 2017.

Approved by the members and signed on x September 2017 by

For and on behalf of
Scottish Borders Council
Designated member

Registered Office:

Bristol Building
Newtown St Boswells
TD6 0SA

Statement of members' responsibilities in respect of the Members' Report and the financial statements

The members are responsible for preparing the Members' Report and the LLP financial statements in accordance with applicable law and regulations. The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the LLP financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the LLP's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Scottish Borders Cares LLP

We have audited the financial statements of Scottish Borders Cares LLP for the period ended 31 March 2017 set out on pages xx to xx. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*. This report is made solely to the members of the limited liability partnership (LLP), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 8 the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2017 and of its loss for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

**Independent auditor's report to the members of Scottish Borders Cares LLP
(continued)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Hugh Harvie

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court

20 Castle Terrace

Edinburgh

EH12EG

Profit and Loss Account

For the year ended 31 March 2017

Period ended 31 March 2016

| | Note | 2017 £000 | 2016 £000 |
|---|------|-----------------|-----------------|
| Turnover | 2 | 14,920 | 14,547 |
| Cost of sales | 2 | <u>(14,969)</u> | <u>(14,812)</u> |
| Gross profit | | (49) | (265) |
| Administrative expenses | | - | <u>(32)</u> |
| Loss on ordinary activities before and after taxation being profit for the financial period before members' remuneration and profit shares | | <u>(49)</u> | <u>(297)</u> |
| Loss for the financial period available for discretionary division among members | | <u>(49)</u> | <u>(297)</u> |

All of the LLP's operations are classed as continuing.

Other Comprehensive Income

For the period ended 31 March 2017

| | Note | 2017 £000 | 2016 £000 |
|---|------|----------------|----------------|
| Loss for the period available for discretionary division among members | | (49) | (297) |
| Actuarial Gain | 7 | (1,596) | 203 |
| Expenses recognised in the profit and loss account | 7 | <u>(1,030)</u> | <u>(1,200)</u> |
| Total comprehensive loss for the period | | <u>(2,675)</u> | <u>(1,294)</u> |

The accompanying notes form an integral part of the financial statements.

Balance Sheet

at 31 March 2017

Year ended 31st March 2017

| | Note | 2017 £000 | 2016 £000 |
|--|------|-----------------------|-----------------------|
| Current assets | | | |
| Debtors | 5 | 429 | 372 |
| Cash at bank and in hand | | 4 | 3 |
| Creditors: amounts falling due within one year | 6 | <u>(779)</u> | <u>(672)</u> |
| Net current liabilities | | <u>(346)</u> | <u>(297)</u> |
| Total assets less current liabilities | | <u>(346)</u> | <u>(297)</u> |
| Provisions for liabilities – Pension and similar obligations | 7 | <u>(3,624)</u> | <u>(997)</u> |
| Net liabilities | | <u>(3,970)</u> | <u>(1,294)</u> |
| Members' other interests | | | |
| Members' capital | | - | - |
| Pension reserve | | (3,624) | (997) |
| Other reserves | | <u>(346)</u> | <u>(297)</u> |
| Total other reserves | | <u>(3,970)</u> | <u>(1,294)</u> |

The accompanying notes form integral part of the financial statements.

These financial statements were approved by the members on x September 2017 and were signed on its behalf by:

For and on behalf of
Scottish Borders Council
Designated member

Company registered number: **SO305156**

Statement of Changes in Net Assets Attributable to Partners

For the year ended 31 March 2017

| | Members Capital | Pension Reserves | Other reserves | Total other reserves | Total Members Interest |
|-------------------------------------|----------------------------|-----------------------------|---------------------------|---------------------------------|---------------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2016 | - | (997) | (297) | (1,294) | (1,294) |
| Movement in the period | - | (2,627) | (49) | (2,676) | (2,676) |
| Balance as 31 March 2017 | - | <u>(3,624)</u> | <u>(346)</u> | <u>(3,970)</u> | <u>(3,970)</u> |

The accompanying notes form an integral part of the financial statements

Notes *(forming part of the financial statements)*

1 - Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Limited Liability Partnership's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules.

The financial statements have been prepared under FRS101.

The LLP's financial statements are fully consolidated in the group financial statements prepared and published by Scottish Borders Council. This entitles the LLP to use the exemption from the preparation of a cash flow statement as stated in **International Accounting Standard 1 ("IAS1")**.

As the LLP is a wholly owned subsidiary of Scottish Borders Council, the LLP has taken advantage of the exemption contained in **International Accounting Standard 24 'related parties' ("IAS24")** and has therefore not disclosed transactions or balances with entities which form part of the group as related parties.

Going concern

The LLP's business activities, together with the factors likely to affect its future development, performance and position, are set out in the members' report on page 3. The members have a reasonable expectation that despite there being a significant negative net worth at the end of the year the LLP has adequate resources to continue in operational existence for the foreseeable future with a service provision agreement in place with Scottish Borders Supports LLP until March 2020 and a guarantee for SB Cares pension liability by Scottish Borders Council. Thus Members continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Members' remuneration and allocation of profits

Members are not remunerated by the LLP. A member's share in the profit or loss for the accounting period is accounted for as an allocation of profits. Unallocated profits and losses are included within 'other reserves'.

Members' capital

The capital requirements of the LLP are determined from time to time by the members. No interest is paid on capital.

Value added tax

The LLP is registered for VAT purposes. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Notes (continued)

1 Accounting policies (continued)

Taxation

Taxation on all partnership profits is solely the liability of individual members. Consequently neither taxation nor related deferred taxation arising in the LLP are accounted for in these financial statements.

Income recognition

Income is recognised in the accounting period to which it relates. Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. Income received in advance is included in the balance sheet within creditors: amounts falling due within one year.

Retirement benefits

All existing and new members of staff have the option of joining the SB Cares Pension Fund ("the Fund"). The Fund is a defined benefit pension scheme, providing benefits based on final pensionable pay, which is contracted out of the State Earnings-Related Pension Fund. Assets and liabilities of the Fund are held separately from those of the LLP. Fund assets are measured using market values. For quoted securities the current bid price is taken as market value. Fund liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Leases

Operating lease rentals are charged to the Profit & Loss Account on a straight line basis over the period of the lease.

Notes (continued)

2 Turnover

Turnover represents the invoiced value of goods and services supplied under the principal activities of the LLP.

3 Staff numbers and costs

The average Full Time Equivalent number of persons employed by the LLP during the period, analysed by category, was as follows:

| | Number of employees (FTE) | |
|--|---------------------------|---------------|
| | 2017 | 2016 |
| | £000 | £000 |
| Front Line Services | 501 | 479 |
| Staff costs for the above persons were | | |
| Wages and salaries | 11,828 | 11,705 |
| Social security costs | 777 | 652 |
| Pension costs | <u>1,745</u> | <u>1,629</u> |
| | <u>14,351</u> | <u>13,986</u> |

4 Particulars of members

The number of members of the Limited Liability Partnership for the period was two. No remuneration was paid to either member.

5 Debtors

| | 2017 | 2016 |
|------------------------------------|------------|------------|
| | £000 | £000 |
| Trade debtors | 2 | 3 |
| Amounts owed by group undertakings | 376 | 337 |
| Prepayments and accrued income | 3 | 6 |
| Value added tax | 22 | - |
| Other debtors | <u>26</u> | <u>26</u> |
| | <u>429</u> | <u>372</u> |

Notes (continued)

6 Creditors: amounts falling due within one year

| | 2017 | 2016 |
|------------------------------------|-------------|-------------|
| | £000 | £000 |
| Other creditors | 3 | - |
| Other taxation and social security | 344 | 347 |
| Accruals and deferred income | <u>432</u> | <u>325</u> |
| | <u>779</u> | <u>672</u> |

7 Employee benefits

The information disclosed below is in respect of the LLP's share of assets and liabilities within the Scottish Borders Council Pension Fund, in which it is a participating employer. The latest full actuarial valuation was carried out as at 31 March 2014.

The Scottish Borders Council Pension Fund is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

Governance

The administering authority for the Fund is Scottish Borders Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, Scottish Borders Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.

Risk exposure

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

-Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;

-Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;

-Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and

-Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

Notes (continued)

7 Employee benefits (continued)

In addition, as many unrelated employers participate in the Scottish Borders Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Amendments, curtailments and settlements

Past service costs/gains

Past service costs/gains arise as a result of introduction or withdrawal of, or changes to, member benefits. For example, an award of additional discretionary benefits to a member such as added years by a member would be considered a past service cost.

We are not aware of any additional benefits which were granted over the year ending 31 March 2016.

Curtailments

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand that one former employee became entitled to unreduced early retirement benefits.

The capitalised cost of the additional benefits on FRS102 compliant assumptions is calculated at £58,000. This figure has been included within service cost in the statement of profit or loss.

Settlements

We are not aware of any liabilities being settled at a cost materially different to the accounting reserve during the year.

The assets and defined benefit obligations prior to the 1st April 2015 will be accounted and disclosed for within Scottish Borders Council for service prior to the transfer date.

In accordance with the agreement between Scottish Borders Council and SB Cares LLP, no liability was transferred from the Council to SB Cares LLP at the date of incorporation.

Notes (continued)

7 Employee benefits (continued)

| | 2017 | 2016 |
|---|----------------|--------------|
| | £000 | £000 |
| Present value of funded defined benefit obligations | (8,864) | (3,184) |
| Fair value of plan assets | 5,240 | 2,187 |
| Net liability | <u>3,624</u> | <u>997</u> |
| | <u>(3,624)</u> | <u>(997)</u> |

Movements in present value of defined benefit obligation

| | 2017 £000 | 2016 £000 |
|--------------------------------|------------------|------------------|
| At 31 st March 2016 | 3,184 | - |
| Current service cost | 2,784 | 2,830 |
| Past service costs/(gains) | - | 58 |
| Interest cost | 132 | 9 |
| Actuarial losses/(gains) | 2,169 | (229) |
| Contributions by members | 545 | 503 |
| Estimated benefits paid | 50 | <u>13</u> |
| At 31 March 2017 | <u>8,864</u> | <u>3,184</u> |

Movements in fair value of plan assets were as follows:

| | 2017 | 2016 |
|--------------------------------|--------------|--------------|
| | £000 | £000 |
| At 31 st March 2016 | 2,187 | - |
| Expected return on plan assets | 699 | 12 |
| Contributions by employer | 1,759 | 1,659 |
| Contributions by members | 545 | 503 |
| Benefits paid | <u>50</u> | <u>13</u> |
| At 31 March 2017 | <u>5,240</u> | <u>2,187</u> |

Notes (continued)

7 Employee benefits (continued)

Expenses recognised in the profit and loss account

| | 2017 | 2016 |
|---|----------------|----------------|
| | £000 | £000 |
| Current service cost | 2,784 | 2,830 |
| Past service cost/(gain) | 0 | 58 |
| Interest on defined benefit pension plan obligation | 5 | (29) |
| Employers Contribution | <u>(1,759)</u> | <u>(1,659)</u> |
| At 31 March | <u>(1,030)</u> | <u>(1,200)</u> |

The fair value of the plan assets and the return on those assets were as follows:

| | 2017 | 2016 |
|-----------------|--------------|--------------|
| | £000 | £000 |
| Equities | 3,648 | 1,439 |
| Corporate bonds | 428 | 195 |
| Real Estate | 269 | 135 |
| Other | <u>895</u> | <u>418</u> |
| | <u>5,240</u> | <u>2,187</u> |

Actual return on plan assets

£(1,596)k

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

| | 2017 % | 2016 % |
|-------------------------|---------------|---------------|
| Discount rate | 2.8 | 3.8 |
| Future salary increases | 3.7 | 4.3 |
| Pension increase rate | 2.7 | 2.5 |
| RPI | 3.6 | 3.4 |
| CPI | 2.7 | 2.5 |

In valuing the liabilities of the pension fund at 31 March 2017, mortality assumptions have been made as indicated below.

Notes (continued)

7 Employee benefits (continued)

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Salary increases are expected to be 1% p.a. until 31 March 2016 and 1.8% p.a. thereafter
- Current pensioner aged 65: 22.8 years (male), 23.7 years (female)
- Future retiree upon reaching 65: 25 years (male), 26 years (female)

The LLP expects to contribute approximately £1,622k to its defined benefit plan in the next financial period.

Sensitivity Analysis

| | | | |
|---|---------|--------|---------|
| Adjustment to discount rate | +0.1% | . 0.0% | 0.1% |
| Present value of total obligation | 8,657 | 8,864 | 9,076 |
| Projected service cost | 3,768 | 3,858 | 3,950 |
| | | | |
| Adjustment to long term salary increase | +0.1% | 0.0% | 0.1% |
| Present value of total obligation | 8,865 | 8,864 | 8,863 |
| Projected service cost | 3,860 | 3,858 | 3,856 |
| | | | |
| Adjustment to pension increases and deferred reevaluation | +0.01% | 0.0% | -0.1% |
| Present value of total obligation | 9,075 | 8,864 | 8,657 |
| Projected service cost | 3,948 | 3,858 | 3,770 |
| | | | |
| Adjustment to life expectancy assumptions | +1 year | None | -1 Year |
| Present value of total obligation | 9,148 | 8,864 | 8,589 |
| Projected service cost | 3,981 | 3,858 | 3,739 |

Notes (continued)

8 Post balance sheet events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements.

9 Ultimate parent organisation

The LLP's ultimate parent undertaking is Scottish Borders Council, one of its designated members, as this is the largest group into which the results of the LLP are consolidated. The consolidated group financial statements of Scottish Borders Council may be obtained from its registered office at the Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

PENSION FUND - DRAFT ANNUAL REPORT AND ACCOUNTS 2016/17

Report by Chief Financial Officer

AUDIT AND SCRUTINY COMMITTEE

28 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Scrutiny Committee with an opportunity to scrutinise the draft Scottish Borders Council Pension Fund Annual Report and Accounts for the year ended 31 March 2017 prior to its submission to the External Auditors.**
- 1.2 The Local Government Pension Scheme Amendment (Scotland) Regulations specify elements which must be contained in the Annual Report and Accounts, the list of these are contained in para 4.1. The draft Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 The draft Report and Accounts are still subject to Audit, which will commence early July. Following Audit sign-off, the final Report and Accounts will be circulated to the joint Committee and Board.

2 STATUS OF REPORT

- 2.1 This report is presented to enable members to consider the draft Annual Report and Accounts (the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2017

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Scrutiny Committee:**
 - (a) **Notes the Draft Annual Report and Accounts 2016/17 for the Scottish Borders Council Pension Fund; and**
 - (b) **Supports its submission for review by the External Auditors.**

4 BACKGROUND

- 4.1 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specifies that the Annual report must contain:
- (a) report on the management and financial performance during the year;
 - (b) statement on the investment policy for the Fund;
 - (c) pensions administration arrangements during the year;
 - (d) actuarial valuation statement;
 - (e) governance compliance statement;
 - (f) fund account and net asset statement;
 - (g) annual report on pension administration strategy; and
 - (h) the current Statement of Investment Principles.

5 ANNUAL REPORT AND ACCOUNTS 2016/17

- 5.1 The draft Annual Report and Accounts for 2016/17 (the Annual Report) is attached at Appendix 1. The Annual Report will be submitted to the External Auditors, Audit Scotland for full audit by 30 June 2017.
- 5.2 The Annual Report will also be made available for public inspection for a 3 week period commencing 30 June 2017.
- 5.3 It should be noted that the Annual Report remains draft and the conclusion of the year end work including the external audit may result in changes to it.
- 5.4 The Committee will receive a copy of the final report at the end of the statutory external audit process to agree prior to its publication.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this proposal.

6.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

6.3 Equalities

It is anticipated that there are no adverse equality implications.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of the proposals contained in this report.

7 CONSULTATION

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted on the report and their comments have been incorporated.
- 7.2 The Pension Fund Committee and Pension Fund Board considered and supported the Draft Annual Report and Accounts at its joint meeting on 22 June 2017.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

| Name | Designation and Contact Number |
|-------------|--|
| Kirsty Robb | Capital and Investment Manager, 01835 825249 |

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board, 22 June 2017

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

Contact us at Capital & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA
Tel: 01835 825016
email: treasuryteam@scotborders.gov.uk

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UNAUDITED ANNUAL REPORT AND ACCOUNTS

Scottish Borders Council Pension Fund

For year to 31 March 2017

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REPORT BY CHAIRMAN OF PENSION FUND COMMITTEE

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2017. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in financial year 2016/17.

Highlights for the Year

Pension Fund Committee/Pension Board

The Pension Fund Committee has worked hard during the year in response to the continually growing governance agenda and increasingly complex pension administration environment that the Fund operates within.

The Committee members have engaged with training events both locally and nationally to expand their knowledge and understanding. The recent local elections has resulted in change of Membership for the Committee going forward but due to the hard work and dedication of the out-going Members the fund is in a strong position.

The Joint meetings of the Committee and Board continued during 2016/17 to be productive and informative due to the positive engagement of all members.

The Investment and Performance Sub-Committee, has met all investment managers twice during the year, which has allowed the committee full scrutiny of funds managed.

Investment Assets

Following the strong market recovery and strong performance from key fund managers over the last couple of years, 2016 has proved to be challenging but successful time. The level of volatility across markets, especially global equities has continued to be

unprecedented. Despite this the fund has managed to increase in value by £112m during the year.

The overall performance of the Fund was 21.5% for 2016/17, outperforming the benchmark by 1.0%.

Procurement Activity

Following the completion of the Strategic Asset Allocation review 3 new managers were successfully appointed to the Fund. The Fund has also entered an agreement to work along with Lothian Pension Fund to access the Infrastructure market.

Cashflow Modelling

Work has continued during 2016 modelling the Funds cashflow position. This work will continue into 2017 as the Fund continues to mature and the balance between contributions and expenditure continues to widen.

Pensions Administration

During the year the Pensions Administration Team successfully issued all of the Annual Benefit statements to Employees, by the required deadline, and incorporating the new CARE scheme.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our investment managers, KPMG and Barnett Waddingham for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.



**Chairman, Pension Fund Committee
Scottish Borders Council**

MANAGEMENT COMMENTARY

Management and Financial Performance

Scottish Borders Council Pension Fund

2016/17 Key Highlights

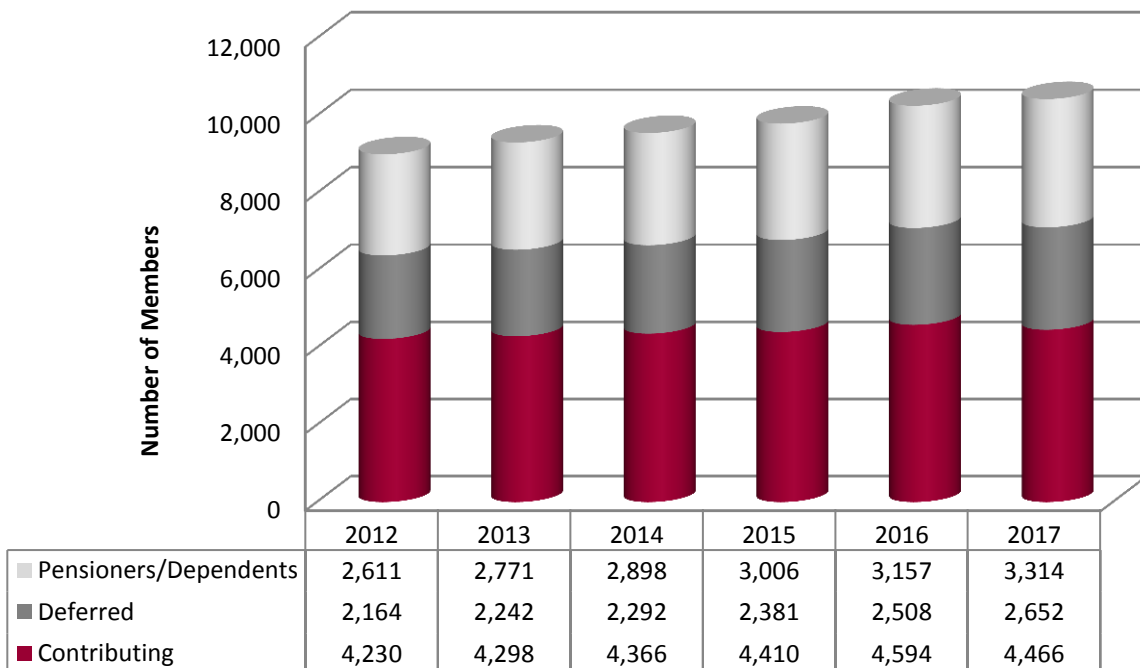
- £654m Net Assets, a increase of £112m on 2015/16
- Strong performance return of 21.5% for 2016/17 and 10.9% for the rolling 3 year period
- Continued sound governance of the Fund and good engagement of Members in the training programme
- 10,432 Members, an increase of 173 on previous year

The Scottish Borders Council Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS) is administered by Scottish Borders Council (the Administering Authority). Note 1 to the Annual Accounts, page 28 provides a description of the Fund.

The Note sets out information in relation to the Fund's regulatory environment, funding, benefits and membership.

Overview of Fund Membership

Current membership of the Fund is 10,432 of which 4,466 are actively contributing and 3,314 are in receipt of pension benefits. The following chart summarises the trends in membership:



The chart on the previous page demonstrates that although there has been a relatively static position in relation to active contributing membership, there has been a continuing rise in the number of pensioners. Since 2012 the total membership has increased by 1,254 members (a 14% increase overall). During this period the number of pensioners and their dependants has increased by 19%, and the number of active contributing members has increased by 9%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively as the fund matures. This was included as part of the considerations when undertaking the full investment review.

A full reconciliation of the movement in membership during 2016/17 is included in Note 19 to the Accounts, page 44.

Financial Performance

The Financial Statements for the Fund are set out from page 26.

Key Figures from these are set out below:

| | Restated 2015/16 £'000 | 2016/17 £'000 |
|---|---------------------------------------|--------------------------|
| Net (Withdrawals) from Dealings with Members | (1,971) | (2,229) |
| Net Return on Investments | 2,018 | 118,278 |
| Net Increase/(decrease) in the Fund during the Year | (3,225) | 112,493 |
| Closing Net Assets of the Scheme | 541,900 | 654,393 |

These highlight two key messages in relation to the Financial Position of the Fund:

- ***Strong financial returns from Fund Managers have resulted in increase of £112m in Net Assets***
- ***A Net Withdrawal position in relation to dealing with Fund Members***

The strong asset position, along with the 2014 Triennial Valuation of funding levels, demonstrates that the Fund is well placed to meet its future pension and other benefit liabilities.

The slightly increasing net withdrawal position supports the trend that is seen in the membership chart as outlined on page 3.

Recent changes in the legislation around what pensioners are able to do with their pension benefit entitlements have increased individual freedom to withdraw from the Fund potentially triggering significant transfer movements. The fund has not however seen any significant withdrawal from the fund as a result of this legislation but is continuing to monitor this position.

Governance and Decision Making

Following the significant changes required in the governance arrangements which came into force on 1 April 2015 the Pension Fund Board was established. Joint meetings of the Pension Fund Committee and Pension Fund Board have been held regularly during 2016/17.

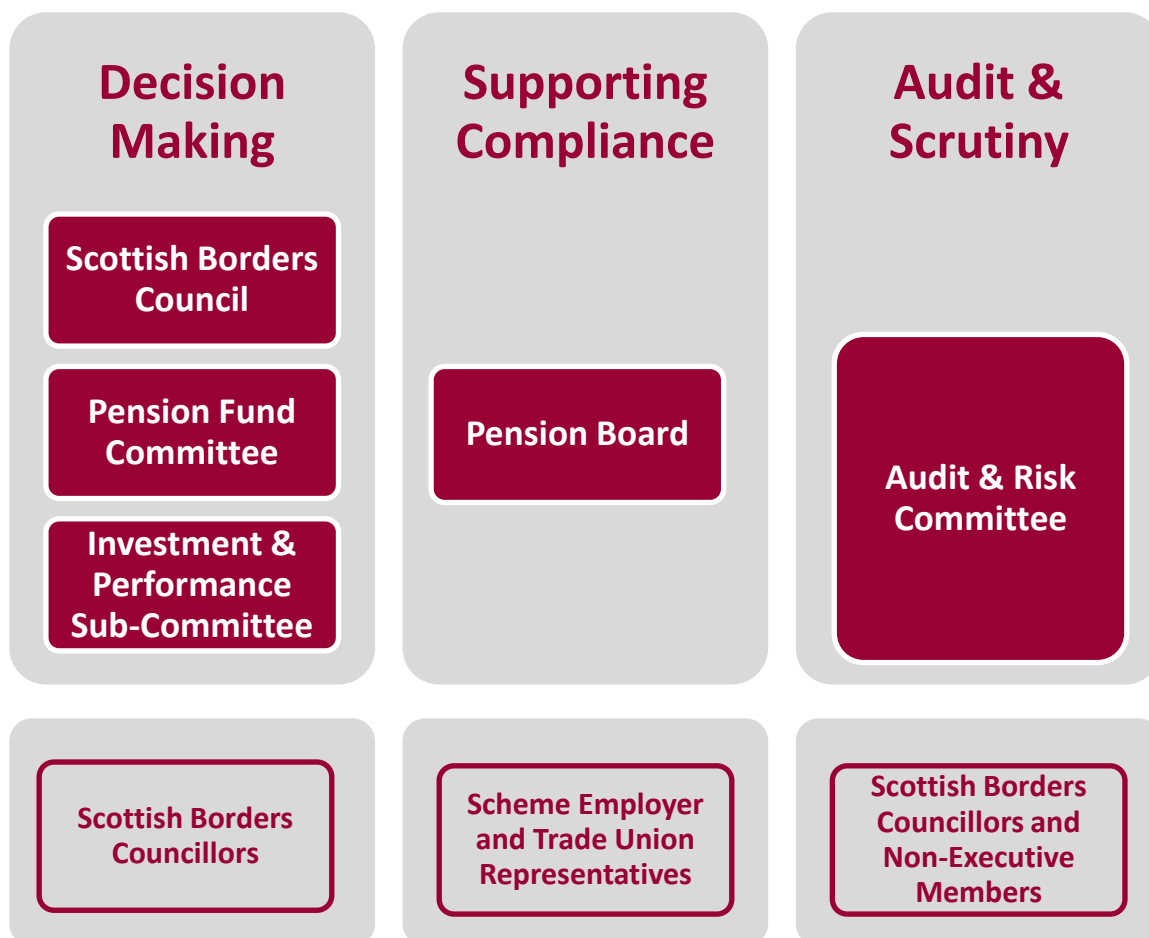
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

- a) securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify.

This body is made up of four scheme employer representatives and four trade union representatives.

The membership of the Pension Fund Committee comprises elected members from the administering authority, Scottish Borders Council.

The governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2017 can be found on pages 17 to 23.

Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 16 June 2016 reflecting the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2016/17 training programme was developed. It was delivered to all members of both the Pension Fund Committee and the Pension Fund Board and covered the following areas:

- Financial Markets and Investment Products
- Role of Custodian
- General Pension Fund regulatory environment
- LGPS regulatory environment

The Training Policy sets out a target for all members of the Pension Fund Committee and Pension Fund Board in relation to attendance at Committee meetings and training events. The 2016/17 performance is set out below.

| <i>Pension Fund Committee</i> | Number of Members Attending | |
|--------------------------------------|--|---|
| % Attendance | Committee (Target – 2 meetings) | Training (Target – 2 sessions) |
| 100% (4 sessions or more) | 2 | 2 |
| 75% (3 sessions) | 3 | 3 |
| 50% (2 sessions) | 1 | 1 |
| ≤ 25% (1 or no sessions) | 1 | 1 |

| <i>Pension Fund Board</i> | Number of Members Attending | |
|----------------------------------|--|---|
| % Attendance | Committee (Target – 2 meetings) | Training (Target – 2 sessions) |
| 100% (4 sessions or more) | 1 | 3 |
| 75% (3 sessions) | 4 | 5 |
| 50% (2 sessions) | 2 | - |
| ≤ 25% (1 or no sessions) | 1 | - |

The Policy also requires members of the Pension Fund Board and Committee to attend at least two meetings per year and two training events. All Members of the Pension Fund Board fully met the training targets set in the Training Policy and 87.5% met the attendance target. 85.7% of the Pension Fund Committee met the training and attendance target.

The Fund is able to demonstrate full compliance with the relevant best practice standards and this is set out in the Governance Compliance Statement from page 19.

Fund's Aims and Objectives

Primary Aim of the Fund

- To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

Funding Objectives

- Set levels of employer contribution that will **build up a fund of assets that will be sufficient to meet all future benefit payments** from the Fund.
- Build up the required assets in such a way that ensure levels of **employer contribution that are stable**

Pensions Administration

- Deliver a **High Quality Pension Service to Members.**

Governance

- Ensure that Scottish Borders Pension Fund is **managed effectively, transparently and remains compliant.**

The Fund approved a Business Plan for the period covering 2016/17 – 2018/19 on 16 June 2016 and this presented the action plan associated with supporting the delivery of these aims and objectives. The key following actions were completed during 2016/17.

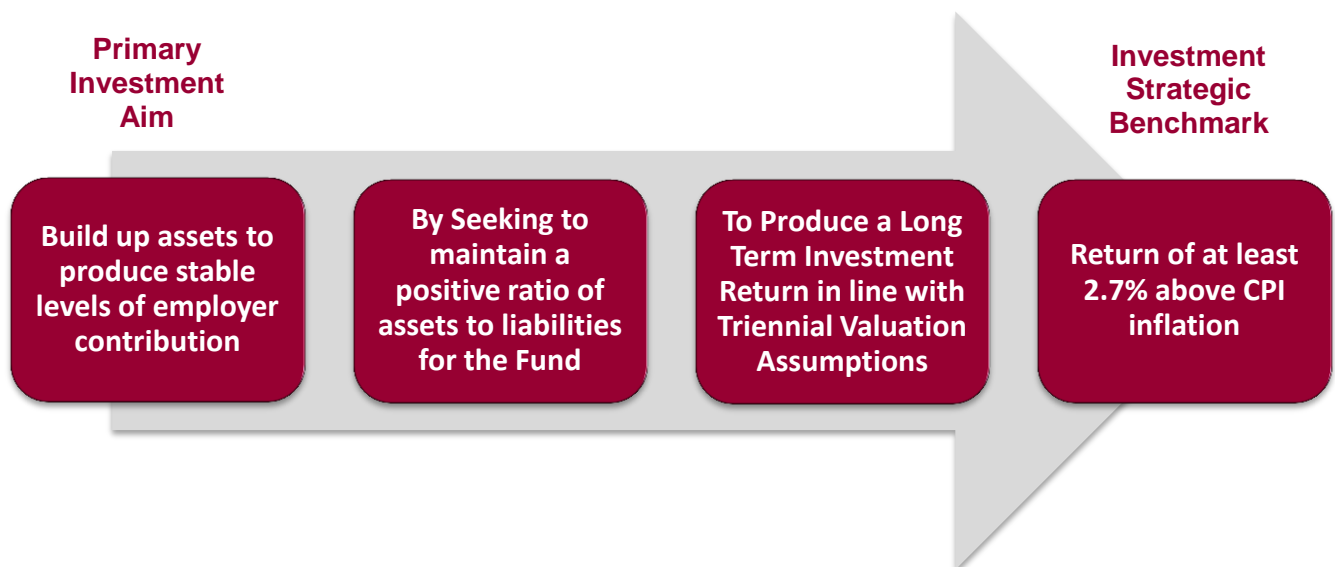
- ***Full review of Investment Strategy based on asset and liability modelling completed***
- ***Strategic Asset Allocation review completed and new fund managers appointed***
- ***Custodian procurement complete and services transferred successfully to Northern Trust***
- ***Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications***

A full copy of the Business Plan can be found at www.scotborders.gov.uk/pensions.

MANAGEMENT COMMENTARY

Investment Strategy

The Statement of Investment Principles (SIP) approved on the 18 June 2015 sets out the Fund's current Investment Strategy and a copy of this document can be found at: www.scotborders.gov.uk/pensions. An extract of the key elements of the SIP are included in Annex 1 and the Investment Strategy is summarised below:



The following table indicates the actual position at 31 March 2017 in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

| Asset Class | Asset Allocation at 31/3/16 % | Asset Allocation at 31/3/17 % | Strategic Benchmark % |
|---------------|-------------------------------|-------------------------------|-----------------------|
| UK Equity | 18.8 | 18.2 | 14.0 |
| Global Equity | 46.8 | 49.8 | 33.5 |
| Bonds | 10.8 | 9.7 | 15.0 |
| Alternatives | 17.0 | 16.9 | 22.5 |
| Property | 6.1 | 5.1 | 15.0 |
| Cash | 0.5 | 0.3 | 0.0 |
| Total | 100.0 | 100.0 | 100.0 |

As can be seen from the table on the above there has not been any major changes in the position of the allocation of assets between 2015/16 and 2016/17. The Fund has taken a deliberate decision to run underweight in the Bonds allocation due to the current market conditions. A revised asset allocation was agreed in December 2016 with greater focus on index linked assets including long leased property, with some initial reallocation of fund taking place before 31 March and it is anticipated the required transfers will be implemented during 2017/18

The strategic benchmark represents the asset allocation split as approved in December 2016 and contained with the 2017 Statement of Investment Principles.

MANAGEMENT COMMENTARY

Review of Investment Performance

2016/17 in Numbers

- **Strong 3 year annualised investment performance of 10.9%, 0.9% above benchmark**

- **Strong 1 year performance** to March 2017 with investment returns of 21.5% in the year to a benchmark of 19.5%

Key Successes 2016/17

Investment Markets

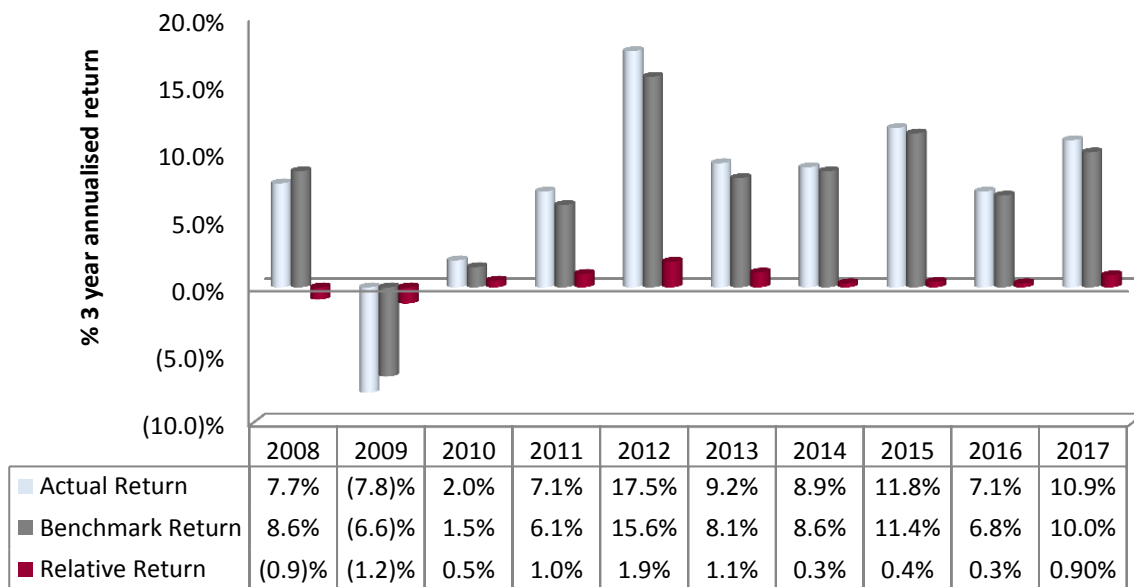
During 2016/17 there was an unprecedented level of volatility across a number of markets due largely to global political events. Over the 1 year rolling period a positive return was experienced in Equities both UK and Global. The 3 year rolling period is still positive compared to its benchmark, although lower due to the lower than benchmark returns during 2015/16. The factors affecting the markets were:

- Election of new US administration with promise of fiscal stimulus led to strong “risk on” environment as global equities rallied from 2015/16 levels.
- Uncertainty around BREXIT resulted in an element of volatility during the year but following the outcome markets have remained positive..
- Corporate bonds performed positively amidst a backdrop of improving global economic growth.

Investment Performance

The Fund's performance against benchmark over the past 10 years is highlighted in the chart below. This chart demonstrates that the rolling 3 year annualised relative return (i.e. Fund's return achieved compared with the benchmark) since 2010 has been positive, and that over the 10 year period there has only been one year of negative returns overall for the Fund and that was during the financial crisis.

3 Year Annualised Returns ending 31 March



Including the impact of the passive currency hedge, the overall fund return over 3 years was 10.9% p.a. versus the benchmark of 10.0% p.a., and the Fund return over 1 year was 21.5% p.a. compared to a benchmark of 19.5% p.a. Excluding the impact of the currency hedge, the fund return over 3 years was 11.9% p.a. versus the benchmark of 11.3% p.a. and the fund return over 1 year was 22.9% p.a. versus the benchmark of 20.9% p.a.

The Fund achieved these favourable returns in 2016/17 despite the volatile period in the markets during the year. The fluctuations in currency and the resulting currency hedge payments pulled the overall performance of the fund down by 1.4% during the year and 1% over the 3 year period. The currency hedge was fully removed from the fund in December 2016.

Each quarter the Investment Consultants, KPMG, reported on the Fund's quarterly performance by individual investment manager and mandate to the Joint Pension Fund Committee, and Pension Board. The Investment and Performance Sub Committee also met each Manager twice during the year giving members an opportunity to gain a deeper understanding of the investments, the decision making process and their performance.

The following table provides an analysis of how the Fund's investments performed against the Funds Benchmark.

| Return on Investment as at 31/3/2017 | 1 year rolling return | | 3 year rolling return | |
|--|-----------------------|----------------------|-----------------------|----------------------|
| | Fund % | Bench ¹ % | Fund % | Bench ¹ % |
| Total Fund including Currency Hedging | 21.5 | 19.5 | 10.9 | 10.0 |
| Total Fund excluding Currency Hedging | 22.9 | 20.9 | 11.9 | 11.3 |
| Global Equities including UK | 31.0 | 29.6 | 16.6 | 15.4 |
| UK Equities | 22.0 | 22.0 | 7.9 | 7.7 |
| UK Government Bonds | 6.6 | 6.6 | 11.6 | 10.5 |
| UK Corporate Bonds | 11.8 | 9.2 | 7.8 | 7.4 |
| Pooled Bonds | 6.9 | 3.3 | n/a | n/a |
| Property | 1.9 | 3.7 | 10.0 | 10.2 |
| Alternatives | 7.5 | 4.5 | 5.4 | 4.5 |

Key:

¹ **Bench:** Benchmark Return which reflects the overall performance of the individual markets available to the manager within the mandate given to them.

The performance of the Fund overall has exceeded the rolling 1 year and 3 year benchmark. The rolling 1 year performance was aided by strong performance from Harris Associates in global equities, off-setting an under performance from Morgan Stanley in global equities and UBS Property portfolios.

Top 20 Direct Equity Holdings at 31 March 2017

| Company | Market Value of Holding £ m | Company | Market Value of Holding £ m |
|----------------------------|-----------------------------|--------------------|-----------------------------|
| Prudential | 6.8 | Glencore | 3.4 |
| Amazon | 6.7 | Allianz SE | 3.3 |
| Royal Caribbean Cruises | 5.2 | Richemont | 3.3 |
| Naspers | 4.6 | CNH Industrial | 3.3 |
| Taiwan Semicon.SPN.ADR.1:5 | 4.2 | Anthem Inc | 3.2 |
| SAP | 4.0 | Credit Suisse | 3.2 |
| Moodys Corp | 3.9 | Daimler | 3.1 |
| ADR Baidu | 3.5 | CRH PLC | 3.0 |
| Alphabet Inc | 3.5 | AIA Group | 2.9 |
| BNP Paribas | 3.4 | Samsung Electronic | 2.8 |

MANAGEMENT COMMENTARY

Funding Position

2014 Valuation

- **101 % Funding Level for the Fund**
- **Stable Common Employer Contribution Rates at 18%**

Triennial Valuation 2014

The Triennial Funding Valuation as at the March 2014 was undertaken during 2014/15 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Board on 18 June 2015. A copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

The outcome of the 2014 Valuation was a funding level of 101% and a Fund which is no longer in a funding deficit position. As a result there was no change in the overall Fund common employer contribution rate, although some individual employer rates did change for specific circumstances.

| Valuation Date as at 31 March | Past Service Funding Position – Scottish Borders Council Pension Fund | | |
|---------------------------------|---|---------------|-------------|
| | 2008 £m | 2011 £m | 2014 £m |
| Value of the Scheme Liabilities | (310.1) | (402.2) | (487.6) |
| Smoothed Asset Value | 299.2 | 384.8 | 490.5 |
| Surplus/ (Deficit) | (10.9) | (17.4) | 2.9 |
| Funding Level | 96% | 96% | 101% |

Note 23 to the Statement of Accounts on page 46, contains details of the outcome and assumptions used in the 2014 Valuation and the impact that it had on employer contribution rates.

This is the first valuation that has taken into account the move to an LGPS based on career average earnings rather than final salary which came into effect on 1 April 2015.

A major contributing factor to the improvement in the funding level has been the strong investment performance that the Fund has achieved over the past 3 years.

Valuation for Statutory Accounts at 31 March 2017

Note 24 to the Statement of Accounts on page 47, contains the actuarial present value valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £254.2m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the fund.

MANAGEMENT COMMENTARY

Pensions Administration Update

2016/17 in Numbers

- 18 Scheme Employers
- £21.7m of Pension and Other Benefits paid during year
- £19.4m of Contributions Received from 4,466 Active Members and their Employers
- 6,515 Benefits Statements issued

- All Annual Benefit Statements issued by deadline, incorporating the new CARE benefits
- Testing of Business World fro processing Pension payment achieved in advance of 1st April 2017 implementation
- Successful admission of additional Bodies to the Fund

Key Successes 2016/17

Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2016/17 and covered the requirements for the year end returns, requirements for the triennial valuation and an overview of investments. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the new Pension Board.

MEMBERSHIP

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Teachers are not included as they come within other national pension schemes. There are 18 employer organisations within the Fund including the Council itself and membership by employer is analysed over the page.

| Membership Details as at 31 March 2017 | Number of Contributors | Pensioners | Deferred Pensioners | Total |
|---|------------------------|--------------|---------------------|---------------|
| Scheduled Bodies: | | | | |
| Scottish Borders Council | 3,246 | 3,067 | 2,344 | 8,657 |
| Borders College | 182 | 66 | 96 | 344 |
| Visit Scotland (Scottish Borders) | 1 | 6 | 9 | 16 |
| | 3,429 | 3,139 | 2,449 | 9,017 |
| Active Admitted Bodies: | | | | |
| Scottish Borders Housing Association | 100 | 84 | 67 | 251 |
| LIVE Borders | 209 | 16 | 29 | 254 |
| SBCares | 673 | 43 | 89 | 805 |
| Jedburgh Leisure Facilities Trust | 2 | | 2 | 4 |
| L&B Community Justice Authority | 2 | 1 | 5 | 8 |
| Amey Community Limited | 6 | 5 | 3 | 14 |
| CGI | 45 | | | 45 |
| | 1,037 | 149 | 195 | 1,381 |
| Admitted Bodies with No Active Contributing Members: | | | | |
| Gala Youth Project | | 1 | 1 | 2 |
| Scottish Borders Careers | | 1 | 3 | 4 |
| Others | | 24 | 4 | 28 |
| | 0 | 26 | 8 | 34 |
| Total | 4,466 | 3,314 | 2,652 | 10,432 |

Member Engagement

This has been identified as an area for development within the Pension Fund Business Plan 2016/17 – 2018/19. The development of a Communication Policy and associated action plan is included as an action for delivery within the next three year period. This will include exploiting the use of the web to engage with members via self-service interaction with the new pension administration system and improved information being available on the website.

Trade Unions as member representatives have also shown good engagement through their attendance at the Pension Fund Committee and also by securing 4 representatives for the Pension Board and identifying several substitutes.

Pensions Administration Strategy

The Fund's Pensions Administration Strategy was approved in September 2015. This sets out scheme employer and administering authority roles and responsibilities and defines the service performance standards.

How have we done?

A comprehensive report on Pensions Administration performance for 2016/17 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 15 June 2017 and a copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

Administering Authority Performance Measures

Many of the performance standards have been met in 2016/17 and are comparable with the positive performance in the previous year. During 2015/16 the target performance days for responding to general queries was reduced from 10 to 5 days and 100% of queries were replied to within this new target.

Service Standard - Estimates

| Standard | Volume of Requests | Target Response | 2016/17 % on Target |
|--------------------------|--------------------|-----------------|---------------------|
| Estimates – Transfer In | 80 | 20 Days | 21.25% |
| Estimates – Transfer Out | 59 | 20 Days | 25.42% |
| Estimate – All Other | 875 | 10 Days | 90.40% |
| Total Estimates | 1,014 | | |

Service Standard – Query Response Turnaround

| Standard | 2015/16 | | 2016/17 | |
|--|-------------------|-------------|-------------------|-------------|
| | Volume of Queries | % on Target | Volume of Queries | % on Target |
| Query responses – within 5 working days | 1,075 | 100% | 972 | 100% |
| Benefit Statement queries – within 20 working days | 55 | 100% | 78 | 46% |
| Total | 1,130 | | 1,050 | |

Service Standard - Other

| Area | Measure | Completed |
|---------------------------|------------------|-----------|
| Employer Liaison Meetings | 1 per annum | Yes |
| Benefit Statements | by end of August | Yes |

Employer Performance Measures

Service Standard – Employer Notifications

| Standard | Volume of Notifications | Target % | % Achieved |
|--|-------------------------|----------|------------|
| New starts notification - within 20 working days | 530 | 90% | 100% |
| Changes notified – within 20 working days | 571 | 90% | 100% |
| Retirement info – at least 20 working days before | 206 | 90% | 100% |
| Early leaver notification – within 20 working days | 544 | 90% | 100% |
| Death in service notification – within 10 working days | 3 | 90% | 100% |

Service Standard – Pension Contribution Payments

The following tables compare the date contribution payments are received against the target date for each of the Scheduled and Active Admitted Bodies.

| Employer Body | Number of Monthly Payments Received | | |
|--------------------------------------|---|------|--------------|
| | By Target Date (19 th of Month) | Late | % On Time |
| Scottish Borders Council | 12 | - | 100% |
| Visit Scotland | 12 | - | 100% |
| Borders College | 12 | - | 100% |
| Scottish Borders Housing Association | 12 | - | 100% |
| Jedburgh Leisure Facilities Trust | 10 | 2- | 83% |
| LIVE Borders | 6 | 6- | 50% |
| AMEY Community Limited | 12 | - | 100% |
| SBCares | 12 | | 100% |
| CGI | 6 | | 100% |

During 2016/17 there was an increase in the number of payments being received late when compared to 2015/16, due to the repeat nature of late payments made by Live Borders they were written to and reminded of their responsibility to make payment on time. The payments dates continue to be monitored on a monthly basis.

David Robertson
Chief Financial Officer
Scottish Borders Council

28 June 2017

GOVERNANCE

Annual Governance Statement 2016/17

Introduction

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Pension Fund is the Governance Policy and Compliance Statement (as amended on 18 June 2015) which is available on the website www.scotborders.gov.uk/pensions.

The Governance Framework

The key elements of the Pension Fund's governance arrangements include:

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme set up for the Scottish Borders geographic area.
- b) The Council has delegated its responsibilities as Scheme Manager to the Pension Fund Committee. The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund.
- c) The introduction of the Pensions Board, which meets jointly with the Committee, formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval the first Pension Fund Business Plan covering the period 2016/17 – 2018/19 to improve planning and monitoring of the performance of the Fund and to demonstrate the “Myners Principle” relating to effective decision making. The business plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that was managed effectively, transparently and was compliant.
- e) The Pension Fund appoints professional advisers and external service providers.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks, regular reviews of investment manager reports that measure performance against agreed targets, and independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.
- g) The Pension Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the risk register to regular review.
- h) The Chief Financial Officer (Section 95 officer) for the Council is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate professional advice is sought and is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.

- i) The Chief Officer HR for the Council is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved pensions' administration strategy.
- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

The Council as Administering Authority of the Pension Fund conducts an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Risk Committee whose role includes high level oversight of the Pension Fund's governance, risk management, and internal control arrangements.

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles and the detail of this is set out in the Governance Compliance Statement 2016/17, Annex 1 (pages 19 – 23).

The review of the effectiveness of the system of internal financial control is informed by the work of professional accountancy staff within the Council, the assurances from the Chief Officer Audit & Risk's annual internal audit opinion and report on the work of internal audit, and by the external auditors' reports.

The review cycle for the risk register is undertaken in line with agreed practice and the current status is summarised in the Risk Management Statement.

The conclusion from the review activity outlined above is that in 2016/17 the Pension Fund continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

Improvement Areas of Governance

The review has identified some areas where further improvements can be made to enhance the existing governance arrangements:

- a) Development of a communications plan to improve awareness and understanding of stakeholders and encourage maximum membership of the Fund.
- b) Continue to monitor the implications of new national policy on freedom of choice of pension sums.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control and governance. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Compliance Statement, Annex 1 (pages 19 – 23).

GOVERNANCE

Governance Compliance Statement 2016/17

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Board.

| Principle | | Full Compliance | Comments |
|------------------|---|-----------------|--|
| Structure | | | |
| A | The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council. | Yes | <p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the Committee).</p> <p>The Committee comprises of 7 elected members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p> |
| B | Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee | Yes | <p>The Pensions Board (the Board) formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board has 8 members, 4 employer representatives and 4 trade union representatives covering all pension fund members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The Investment and Performance Sub-Committee (the Sub-Committee) established under the Committee has its remit set out in the Scheme of Administration. The Membership of the Sub-Committee is comprised of the 7 elected members from the Committee and 2 (non-voting) members from the Board.</p> |

| Principle | | Full Compliance | Comments |
|--|---|-----------------|---|
| C | Where a secondary committee or panel has been established, the structure ensures effective communication across both levels. | Yes | Minutes of the Sub-Committee and any other Sub-Groups are submitted to Committee for approval. 2 members from the Board and all members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance. |
| D | Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel. | Yes | The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership. |
| Committee Membership and Representation | | | |
| A | All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis) | Yes | The Board and Committee meet jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Board. The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity. |
| B | Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Yes | All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June). The Board was established by Council on 2 April 2015. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive papers and access meetings in the same way. |

| Principle | | Full Compliance | Comments |
|--|---|-----------------|---|
| Selection and role of lay members | | | |
| A | That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Yes | For elected members this is part of Council's Code of Governance along with Member induction programme. In addition the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. |
| B | At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. | Yes | Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees. |
| Voting | | | |
| A | The policy of individual administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees. | Yes | This is set out in the Council's Scheme of Administration and the Board's Constitution. |
| Training/Facility time/Expenses | | | |
| A | In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Yes | The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses. |
| B | Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. | Yes | Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June. |

| Principle | | Full Compliance | Comments |
|------------------------------------|---|-----------------|---|
| C | The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. | Yes | Annual Training Plan produced and logs of training are being maintained. |
| Meetings (frequency/quorum) | | | |
| A | An administering authority's main committee or committees meet at least quarterly. | Yes | The joint meetings of the Committee and Board are quarterly. |
| B | An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits. | Yes | Investment Sub-Committee meets every six months in between main joint Committee/Board meetings. |
| C | An administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Not applicable | Pension Board formally provides for the stakeholders engagement. |
| Access | | | |
| A | Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | Yes | Papers sent to all Committee/Board members detailed in Scheme of Administration. |

| Principle | | Full Compliance | Comments |
|------------------|--|-----------------|---|
| Scope | | | |
| A | Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Yes | The Scheme of Administration sets out that the Committee as having a remit which covers all matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator. |
| Publicity | | | |
| A | Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Yes | Minutes and Public papers available via Council website, as are various governance and scheme policy documents. |

GOVERNANCE

Risk Management Statement

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately.

The Risk Register for the Pension Fund has been developed in line with the Council's approach to risk management and assesses risk using a scoring methodology based on likelihood and impact.

A full risk review was undertaken in June 2016 and subsequent reviews have followed the Council's cycle, as shown below was followed:

| Level of risk (Inherent risk score) | Reporting and Review Cycle |
|--|--|
| RED -Very High (15-25) | 3 monthly reviews of action progress throughout the year |
| AMBER – High (6-12) | 6 monthly review |
| GREEN – Low (1-5) | Annual review |

The headings under which the Council consider risk are set out below and the analysis of the level and number of risks are set out below:

| Risk Category | Risk Assessment | | | | | |
|------------------------------|-----------------|-----------|----------|----------------|-----------|-----------|
| | Before Controls | | | After Controls | | |
| | Red | Amber | Green | Red | Amber | Green |
| Asset & Investment | 3 | 6 | - | - | 7 | 2 |
| Employer | - | 4 | - | - | 3 | 1 |
| Resource & Skill | - | 5 | - | - | 3 | 2 |
| Liquidity | 2 | 4 | - | 1 | 4 | 1 |
| Administrative | - | 8 | - | - | 3 | 5 |
| Regulatory & Compliance | 1 | 3 | - | 1 | 1 | 2 |
| Reputation | 1 | 4 | - | - | 2 | 3 |
| Total Number of Risks | 7 | 34 | - | 2 | 23 | 16 |

The two risks that remain at red assessment i.e. high risk as at 31 March 2017 are:

- ***Change in the composition of the Pension Fund Membership between active/deferred/pensioners***
- ***Legislation Changes impacting on the Fund***

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Scottish Borders Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer.
- Manage the affairs of the Fund to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts of the Fund (in Scotland, the audited accounts must be laid before a meeting of the Authority within two months of receipt of the audit certificate)

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014, as updated by the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) and supporting guidance issued by the Scottish Government.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice on Local Authority Accounting

The Chief Financial Officer has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Scottish Borders Council Pension Fund as at 31 March 2017, and of its income and expenditure for the year ended 31 March 2017.

David Robertson (CPFA)
Chief Financial Officer
Scottish Borders Council

28 June 2017

STATEMENT OF ACCOUNTS 2016/17 FUND ACCOUNT

| Restated 2015/16 £'000 | | 2016/17 £'000 | Notes |
|------------------------------|--|------------------|-------|
| | Dealings with members, employers and others directly involved in the scheme: | | |
| 18,642 | Contributions | 18,373 | 7 |
| 411 | Transfers in from other pension funds | 1,074 | 8 |
| 19,053 | | 19,447 | |
| (20,357) | Benefits | (19,986) | 9, 10 |
| (667) | Payments To And On Account Of Leavers | (1,690) | 11 |
| (21,024) | | (21,676) | |
| (1,971) | Net Additions/(Withdrawals) from Dealings with Members | (2,229) | |
| (3,272) | Management expenses | (3,555) | 12 |
| | Return on Investments: | | |
| 6,451 | Investment Income | 8,292 | 13 |
| (4,282) | Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments | 110,098 | 14 |
| (151) | Taxes on Income | (113) | |
| 2,018 | Net Return on Investments | 118,277 | |
| | | | |
| (3,225) | Net Increase/(Decrease) in the Fund during the Year | 112,493 | |
| 545,125 | Opening Net Assets of the Scheme | 541,900 | |
| 541,900 | Closing Net Assets of the Scheme | 654,393 | |

NET ASSETS STATEMENT as at 31 March 2017

| Restated 2016 £'000 | | 2017 £'000 | Notes |
|---------------------------|---|----------------|-------|
| | Investment Assets | | |
| 203,952 | Equities | 257,512 | 16 |
| | Managed Funds: | | |
| 32,546 | Property | 32,169 | |
| 82,947 | Global Equities | 105,284 | |
| 62,415 | UK Equities- Passive | 74,744 | |
| 18,643 | Bonds | 20,379 | |
| 39,913 | Diversified Fixed Income | 42,814 | |
| 92,526 | Alternatives | 110,322 | |
| 1,674 | Open Ended Investment Contracts | 1,825 | |
| 1,447 | Derivatives – Forward Foreign Exchange | - | |
| 5,715 | Cash Deposits | 8,158 | |
| 541,778 | Total Investment Assets | 653,207 | |
| 926 | Other Investment Balances | 1,355 | |
| | Current Assets & Liabilities | | |
| 1,365 | Cash Balances | 1,507 | |
| 210 | Contributions due from Employers | 251 | |
| 387 | Other Current Assets | 340 | |
| (2,766) | Other Current Liabilities | (2,267) | |
| 122 | | 1,186 | |
| 541,900 | Net Assets | 654,393 | |

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in the Actuarial Statement in Note 21.

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 29 September 2016.

David Robertson CPFA
Chief Financial Officer
28 June 2017

NOTES TO THE STATEMENT OF ACCOUNTS

1 DESCRIPTION OF THE FUND

A) GENERAL

The Scottish Borders Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council.

The LGPS scheme is governed by the Public Service Pensions Act 2013. The fund is administered by the Council in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010
- The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015

It is a contributory defined benefit pension scheme administered by Scottish Borders Council to provide pensions and other benefits for pensionable employees of Scottish Borders Council and a range of other scheduled and admitted bodies within the Scottish Borders area.

Organisations participating in the Fund include:

- Scheduled Bodies – which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted Bodies – which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

B) FUNDING

Pensions and other benefits are funded by contributions from employees, employers and investment earnings.

The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions, which for 2016/17 were based on the valuation undertaken as at the 31 March 2014 as amended by specific changes agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2016/17 ranged from 15.5% to 19.0%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2017. *From 1 April 2015 these contributions will be based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.*

C) BENEFITS

Prior to 1 April 2015, pension benefits under the LGPS have been based on final pensionable pay and length of pensionable service as summarised below:

| | Service before 1 April 2009 | Service after 31 March 2009 until 31 March 2016 |
|-----------------|--|---|
| Pension | Each year worked is worth 1/80 th x final pensionable salary | Each year worked is worth 1/60 th x final pensionable salary |
| Lump Sum | Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A one off payment of £12 is paid for each £1 of pension given up. |

From the 1 April 2015, the scheme will become a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2016/17 financial year and its position as at the 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the *Local Government Pension Scheme Fund Accounts 2016/17 - example accounts and disclosure checklist* published by the Chartered Institute of Public Finance Accountants (CIPFA).

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. Local authorities responsible for administering a pension fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2014 to publish a pension fund annual report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

In accordance with the Code, the Fund's Financial Statements are generally prepared on an accruals basis. The Net Assets Statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits from and to other schemes are treated on a cash basis.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

Investment Income

i) Interest income

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Sch 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administration Expenses

All administration expenses are accounted for on an accruals basis. Central Support Costs from Scottish Borders Council have been recharged to the Fund on the basis of time spent by staff on the service.

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates or subscription agreements governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Assets Statement

Valuation of Investments

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the closing business day.
- Unquoted investments – Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The

valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement

- Pooled investment vehicles – are valued at bid price on the closing business day

The processes of the fund managers, who are listed in Note 15, page 38 are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks (in particular currency) arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of the derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 21, page 47).

Additional Voluntary Contributions (AVCs)

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2017 was £1.037m (2015/16 £0.846m). During the year contributions totalled £0.153m, while payments out of the AVC fund totalled £0.056m. In accordance with regulation 4(2) (b) of the Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2009 (SI 2009/3093), AVCs are not included in the Pension Fund accounts.

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICES

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2017 was £17.8m.

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary (currently Barnett Waddingham), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 21, page 47. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the financial statements at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|--|--|
| Actuarial Present Value of Promised Retirement Benefits (Note 21) | Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham is engaged to provide the Fund with expert advice about the assumptions to be applied. | <p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> - A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £44m - A 0.5% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £27m - A 0.5% increase in the long-term rate of salary increase would increase value of the liabilities by £6m, and - A 1.25% increase in assumed life expectancy would increase the deficit by £5m <p><i>Source – Triennial Valuation 2014</i></p> |
| Portfolio of alternative assets held in a fund of funds | The alternative assets fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds directors or independent administrators judge necessary. The fund of funds is not publically listed and as such there is a degree of estimation involved in the valuation. | The total portfolio of alternative assets held in a fund of funds is valued in the Financial Statements at £98.7m. There is a risk that this investment may be under- or overstated in the accounts. |

6 EVENTS AFTER THE REPORTING DATE

There are no known events since the 31 March 2017

7 CONTRIBUTIONS RECEIVABLE

| 2015/16 | | | | 2016/17 | | |
|--------------------|------------------|----------------|-----------------------------|--------------------|------------------|----------------|
| Employers £'000 | Members £'000 | Total £'000 | | Employers £'000 | Members £'000 | Total £'000 |
| 13,373 | 4,401 | 17,774 | Normal | 13,627 | 4,514 | 18,141 |
| 772 | - | 772 | Special/Pension Fund Strain | 202 | - | 202 |
| - | 96 | 96 | Additional Voluntary | - | 30 | 30 |
| 14,145 | 4,497 | 18,642 | Total | 13,829 | 4,544 | 18,373 |

8 TRANSFERS IN

There were no group transfers in to the scheme during 2016/17 or 2015/16 and the total of £1.074m (2015/16: 0.411m) represents the total of transfer values in respect of individual members joining the scheme.

9 BENEFITS PAYABLE

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------------|------------------|
| 15,234 | Pension Payments | 15,910 |
| 5,123 | Lump Sums/Death Benefits | 4,076 |
| 20,357 | | 19,986 |

10 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

| 2015/16 | | | 2016/17 | |
|---------------------------|-----------------------------------|--------------------------|---------------------------|-----------------------------------|
| Benefits Payable £'000 | Contributions Receivable £'000 | | Benefits Payable £'000 | Contributions Receivable £'000 |
| 19,340 | 14,811 | Scottish Borders Council | 18,869 | 13,684 |
| 261 | 594 | Scheduled Bodies | 275 | 657 |
| 756 | 3,237 | Admitted Bodies | 843 | 4,032 |
| 20,357 | 18,642 | Total | 19,987 | 18,373 |

11 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---------------------------------------|------------------|
| 68 | Contributions Returned | 88 |
| 599 | Individual Transfers to Other schemes | 1,602 |
| 667 | | 1,690 |

12 MANAGEMENT EXPENSES

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------------------|------------------|
| 301 | Administrative costs | 263 |
| 2,754 | Investment management expenses | 3,051 |
| 217 | Oversight and governance costs | 241 |
| 3,272 | Total | 3,555 |

12(a) INVESTMENT MANAGEMENT EXPENSES

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------------|------------------|
| 2,543 | Management Fees | 2,878 |
| - | Performance Related Fees | - |
| 51 | Transaction Costs | 59 |
| 145 | Custody Fees | 102 |
| 15 | Other Fees | 12 |
| 2,754 | Total | 3,051 |

13 INVESTMENT INCOME

| Restated 2015/16 £'000 | | 2016/17 £'000 |
|------------------------------|--|------------------|
| (5,661) | Dividends from equities | (7,142) |
| (771) | Income from Pooled Investment Vehicles | (1,133) |
| (19) | Interest on Cash Deposits | (17) |
| (6,359) | | (8,292) |

14 (PROFITS) AND LOSSES ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

| Restated 2015/16 £'000 | | 2016/17 £'000 |
|------------------------------|------------|------------------|
| 1,025 | Realised | 17,514 |
| 2,494 | Unrealised | 92,584 |
| 3,519 | | 110,098 |

15 AUDITOR'S REMUNERATION

In 2016/17 the agreed audit fee for the year was £19,710. There were no other fees during 2016/17 paid to Audit Scotland, the Pension Fund's auditor.

16 ANALYSIS OF NET INVESTMENT ASSETS

| Market Value at 31 March 2016 | | | | Market Value at 31 March 2017 | | |
|-------------------------------|-------------------|----------------|-------------------------------------|-------------------------------|-------------------|----------------|
| UK £'000 | Overseas £'000 | Total £'000 | | UK £'000 | Overseas £'000 | Total £'000 |
| | | | Investment Assets | | | |
| 46,438 | 157,515 | 203,953 | Equities | 53,389 | 204,219 | 257,608 |
| | | | Managed Funds: | | | |
| 32,546 | - | 32,546 | Property | 32,072 | | 32,072 |
| 64,089 | 82,947 | 82,947 | Equities | 76,569 | 105,284 | 181,853 |
| 18,643 | - | 18,643 | Bonds | 20,379 | | 20,379 |
| - | 39,913 | 39,913 | Diversified Fixed Income | | 42,814 | 42,814 |
| - | 92,526 | 92,526 | Alternatives | | 110,322 | 110,322 |
| 3,936 | 1,778 | 5,714 | Cash Deposits | 6,826 | 1,332 | 8,158 |
| 165,652 | 374,679 | 540,331 | Total Investment Assets | 189,235 | 463,971 | 653,206 |
| | | | Investment Liabilities | | | |
| 1,447 | - | 1,447 | Derivative - Passive Currency Hedge | | | |
| 167,099 | 374,679 | 541,778 | Net Investment Assets | 189,235 | 463,971 | 653,206 |

Alternative asset portfolio at 31 March 2017

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £98.734m at 31 March 2017, is allocated to the following asset classes at 31 March 2016: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities, Infrastructure and Private Equity.

Investment Movement Reconciliation

| | Opening Market Value £'000 | Purchases & Derivative Payments £'000 | Sales & Derivative Receipts £'000 | Other Movements £'000 | Closing Market Value £'000 |
|---|-------------------------------|--|--------------------------------------|--------------------------|-------------------------------|
| Investment Assets | | | | | |
| Equities | 203,952 | 46,538 | (43,747) | 50,805 | 257,548 |
| Managed Funds: | | | | | |
| Property | 32,546 | 7,888 | (3,741) | (4,524) | 32,169 |
| Equities | 147,036 | 109 | (1,240) | 35,948 | 181,853 |
| Bonds | 18,643 | | | 1,736 | 20,379 |
| Diversified Fixed Income | 39,913 | 1,133 | | 1,768 | 42,814 |
| Alternatives | 92,526 | 11,588 | | 6,208 | 110,322 |
| Derivative Contracts: | | | | | |
| Passive Currency Hedge | 1,447 | | (1,447) | | 0 |
| Net Investments exc. Cash Deposits | 536,063 | 67,256 | 50,175 | 91,941 | 645,085 |

Significant Transactions during the year:

Following strategic asset allocation review £11.5m initial funding made to Private credit allocation with Alternatives.

Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2017. Each of the investments comprises units in a managed fund.

| Value as at 31 March 2016 | £'000 |
|------------------------------------|---------|
| M&G Alpha Opportunities Fund | 42,814 |
| Morgan Stanley Global Brands Fund | 105,284 |
| LGT Crown SBC Segregated Portfolio | 98,734 |
| UBS UK Passive Equities | 74,744 |

Investment Analysed by Fund Manager

Investment Management was undertaken on behalf of the Fund during the financial year by six firms of investment managers: UBS Global Asset Management, Baillie Gifford & Co, Morgan Stanley, Harris Associates and M&G, Partners Group and LGT Capital Partners. The Fund's passive currency hedging programme to December 2017 was provided by State Street Global Advisors. As at 31 March 2016 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

| 31-Mar-16 | | | | 31-Mar-17 | |
|----------------|---------------|-----------------|---------------------------------------|----------------|---------------|
| £'000 | % | | | £'000 | % |
| 62,415 | 11.49 | UBS | UK Equities - Passive | 74,745 | 11.44 |
| 39,111 | 7.20 | Baillie Gifford | UK Equities | 44,112 | 6.75 |
| 120,370 | 22.16 | Baillie Gifford | Global Equities | 151,003 | 23.12 |
| 50,278 | 9.26 | Harris | Global Equities | 69,221 | 10.60 |
| 82,947 | 15.27 | Morgan Stanley | Managed Fund - Global Equities | 105,284 | 16.12 |
| 39,913 | 7.35 | M&G | Managed Fund - Diversified Income | 42,814 | 6.55 |
| 18,643 | 3.43 | M&G | Managed Fund - Bonds | 20,379 | 3.12 |
| 32,812 | 6.04 | UBS | Property | 33,257 | 5.09 |
| 92,337 | 17.00 | LGT | Managed Fund - Alternatives | 98,734 | 15.12 |
| 1,447 | 0.27 | State Street | Derivatives - Passive Currency Hedge | | |
| | | Partners Group | Managed Fund – Private Credit | 11,588 | 1.77 |
| 2,871 | 0.53 | Internal | Internally Managed Cash & Investments | 2,070 | 0.32 |
| 543,144 | 100.00 | | | 653,207 | 100.00 |

The benchmarks and performance targets for each manager as at the 31 March 2017 are contained in Annex 1, Section 4.3, page 65 for information.

Fund Performance

The total Fund return for the year was 21.5% including the currency hedging. The hedging arrangements had a negative impact, decreasing the return by 1.4%. Excluding the currency hedging, the return on the Fund was 22.9% with a relative return over benchmark of 2.0%.

Over three years the Fund has generated an annualised return of 10.9% per annum, including the currency hedging, with a relative return over benchmark of 0.9% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

17 STOCK LENDING

As at 31 March 2017 no stock had been released to a third party under a stock lending arrangement.

18 FAIR VALUE HIERARCHY

Assets and liability valuations are classified into three levels according to quality and reliability of information used to determine fair values.

- Level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Prices are quoted at bid prices.
- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

| Values as at 31 March 2017 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|--|---------------------|-------------------------|--------------------------------------|----------------|
| | level 1 £'000 | level 2 £000's | level 3 £000's | £000's |
| Designated as fair value through fund account | 494,027 | 34,427 | 116,547 | 645,001 |
| Loans & receivables | 6,099 | 5,015 | 38 | 11,152 |
| Financial liabilities at fair value through fund account | | (1,490) | | (1,490) |
| Net Investment Assets | 500,126 | 37,952 | 116,585 | 644,663 |

| Values as at 31 March 2016 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|--|---------------------|-------------------------|--------------------------------------|----------------|
| | level 1 £'000 | level 2 £000's | level 3 £000's | £000's |
| Designated as fair value through fund account | 407,870 | 34,220 | 92,526 | 534,616 |
| Loans & receivables | 4,295 | 2,786 | 1,447 | 8,528 |
| Financial liabilities at fair value through fund account | - | - | - | - |
| Net Investment Assets | 412,165 | 37,006 | 93,973 | 543,144 |

19 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

RISK AND RISK MANAGEMENT

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for managing the Fund's risk rests with the Pension Fund Committee. A risk register for the Fund has been established to identify and analyse the risks that the Fund faces and the key messages from this process are covered in the Risk Management Statement on page 24. The Market Risk and Credit Risk aspects below come under the risk category of Assets and Investment in the Risk Register, whilst Liquidity Risk is a separate category of risk.

In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

A) MARKET RISK

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its Investment Consultants undertake appropriate monitoring of market conditions and benchmark analysis.

(i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's independent provider of performance and analytical data (WM), it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

| Asset Type | Potential Market Movement +/- (% p.a.) |
|------------------------|---|
| UK Equities | 10.76 |
| Global Pooled Equities | 10.72 |
| UK Bonds | 6.84 |
| Cash | 0.01 |
| Property | 1.88 |
| Alternatives | 1.97 |

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

| Asset Type | Value as at 31 Mar 17 £'000 | +/- % Change* | Value on Increase £'000 | Value on Decrease £'000 |
|---|-----------------------------------|------------------|-------------------------------|-------------------------------|
| UK Equities | 118,857 | 20.2 | 142,866 | 94,848 |
| Global Equities | 325,508 | 20.5 | 392,238 | 258,779 |
| Total Bonds | 63,193 | 6.1 | 67,048 | 59,338 |
| Cash | 2,070 | 1.1 | 2,093 | 2,047 |
| Property | 33,257 | 13.0 | 37,580 | 28,934 |
| Alternatives | 110,322 | 17.9 | 130,070 | 90,574 |
| Total Assets Exc. Currency Hedge | 653,207 | | 771,894 | 534,520 |

*The percentage change for total assets includes the impact of correlation across asset classes.

(ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its Investment Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2017 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| Asset Type | At 31 March 2016 £'000 | At 31 March 2017 £'000 |
|---------------------------|------------------------------|------------------------------|
| Cash and Cash Equivalents | 7,080 | 9,665 |
| Fixed Interest Securities | 58,556 | 63,193 |
| | 65,636 | 72,858 |

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

| Asset Type | Value as at 31 Mar 17 £'000 | Effect on Asset Values | |
|---------------------------|--------------------------------|---|--|
| | | Favourable Rate Move + 100 BPS £'000 | Unfavourable Rate Move -100 BPS £'000 |
| Cash and Cash Equivalents | 9,665 | 97 | (97) |
| Fixed Interest Securities | 63,193 | 632 | (632) |
| | 72,858 | 729 | (729) |

(iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in equities overseas that are denominated in currencies other than £UK. To help manage this risk, the Fund hedges 50% of its exposure to equities denominated in certain major foreign currencies through the operation of a passive currency overlay programme, operated by State Street.

The following table summarises the Fund's currency exposure at 31 March 2016:

| Currency exposure by asset type | As 31 March 2016 £'000 | As 31 March 2017 £'000 |
|---------------------------------|---------------------------|---------------------------|
| Overseas Equities | 243,370 | 309,504 |
| Diversified Bonds | 39,913 | 42,814 |
| Alternatives | 92,526 | 110,322 |
| Cash - Foreign Currency | 1,778 | 1,332 |
| Total | 377,587 | 463,972 |

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with KPMG the likely volatility associated with foreign exchange movements on an individual currency basis is shown on the table on the following page. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket'.

| Currency | Value as at 31 Mar 17 £'000 | +/- % Change | Value on Increase £'000 | Value on Decrease £'000 |
|-------------------------|--------------------------------|-----------------|----------------------------|----------------------------|
| Australian Dollar | 970 | 12.15% | 1,088 | 852 |
| Brazilian Real | 991 | 17.55% | 1,165 | 817 |
| Canadian Dollar | 1,197 | 10.24% | 1,319 | 1,074 |
| Chinese Yuan | 1,886 | 10.33% | 2,081 | 1,691 |
| Danish Krone | 2,404 | 9.22% | 2,625 | 2,182 |
| EURO * | 41,461 | 9.25% | 45,471 | 37,771 |
| Hong Kong Dollar | 4,114 | 10.29% | 4,538 | 3,691 |
| Japanese Yen * | 12,598 | 15.19% | 14,512 | 10,684 |
| Mexican Peso | 2,303 | 13.54% | 2,615 | 1,991 |
| Norwegian Krone | 1,285 | 11.68% | 1,435 | 1,135 |
| South African Rand | 5,005 | 17.25% | 5,868 | 4,141 |
| South Korean Won | 907 | 14.14% | 1,035 | 779 |
| Swedish Krona | 17,402 | 11.49% | 19,402 | 15,403 |
| Swiss Franc | 6,313 | 12.23% | 7,085 | 5,541 |
| Taiwan Dollar | 611 | 10.01% | 672 | 550 |
| US Dollar | 176,184 | 10.57% | 194,807 | 157,561 |
| Total Currency * | 275,791 | | 305,718 | 245,863 |

* The % change for Total Currency includes the impact of correlation across the underlying currencies.

B) CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund is separately mentioned within the Council's Annual Treasury Strategy and this document sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2016, including current account cash, was £2.78m (31 March 2015: £3.14m). This was held with the following institutions:

| | Rating | Balance at 31 March 2016 £'000 | Balance at 31 March 2017 £'000 |
|------------------------------|--------|--------------------------------------|--------------------------------------|
| Money Market Accounts | | | |
| Ignis | AAA | 355 | 505 |
| Scottish Widows | AAA | 355 | 505 |
| Blackrock | AAA | 355 | 505 |
| Prime Rate | AAA | 355 | 505 |
| Bank Current Accounts | | | |
| Bank of Scotland | A | 1,365 | 1,507 |
| Total | | 3,138 | 3,527 |

C) LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its internally managed Pension Fund cash holdings through use of instant access accounts or money market funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2016, the Fund's only illiquid assets under this definition are some of the Property fund of funds holdings which are only tradable in the secondary market.

20 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £1.797m (2015: £6.603m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.010m (2015: £0.022m). The Council charged the Pension Fund £0.339m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

| As at 31 March | 2016 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Due (to)/from Scottish Borders Council | (671) | 168 |

Governance

All members of the Pension Fund Committee were active member of the pension fund during 2016/17. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

21 KEY MANAGEMENT PERSONNEL

The key management personnel of the fund is Scottish Borders Council Chief Financial Officer. Total remuneration payable is set out below

| 31 March 2016 £000's | | 31 March 2017 £000's |
|-------------------------|--------------------------|-------------------------|
| 85 | Short-term benefits | 86 |
| - | Post-employment benefits | |
| 2- | Other long-term benefits | 2 |
| - | Termination benefits | - |
| - | Share-base payments | - |
| 87 | Total | 88 |

The figures above reflect the full remuneration as reported in Scottish Borders Council Accounts. The Pension Fund is recharged 12% of the above post.

22 MEMBERSHIP RECONCILIATION 2016/17

| | Membership Reconciliation – Number of Members | | | |
|---------------------------------------|---|--------------|---------------------|---------------|
| | Contributing Members | Pensioners | Deferred Pensioners | Total |
| Number at 31 March 2016 | 4,594 | 3,157 | 2,508 | 10,259 |
| Adjustments (late notifications etc.) | (33) | (1) | (11) | (45) |
| New Members | 530 | | 2 | 532 |
| Transfers to Other Schemes | (9) | | (13) | (22) |
| Refunds of Contributions | (264) | | | (264) |
| Retirement of Contributing Members | (142) | 142 | | 0 |
| Transfer to Deferred Pensioners | (258) | | 258 | 0 |
| Re-employed Deferred Pensioners | 51 | | (27) | 24 |
| Retirement of Deferred Pensioners | | 64 | (64) | 0 |
| Dependants' Pensions | | 43 | | 43 |
| Deaths | (3) | (86) | (1) | (90) |
| Commutation (trivial pensions) | | | | 0 |
| Ill Health Grant | | | | 0 |
| End of Entitlement | | (5) | | (5) |
| Number at 31 March 2017 | 4,466 | 3,314 | 2,652 | 10,432 |

23 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2014, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period.

The Actuarial Valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate.

The Funding Strategy Statement

The latest Funding Strategy Statement (FSS) was approved by the Pension Fund Committee on 22 June 2017 and a copy of this document can be found at: www.scotborders.gov.uk/pensions. Key elements of the FSS are the Funding Objectives and Funding Strategy for the Pension Fund and these have been extracted and included below:

Funding Objectives (Section 1, page 2 of FSS)

To:

- set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
- build up the required assets in such a way that produces levels of employer contribution that are as stable as possible;
- ensure effective and efficient management of employer's liabilities; and
- allow the return from investments to be maximised within reasonable risk parameters.

Funding Strategy (Section 3, page 4 of FSS)

The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
- As stable an employer contribution rate as is practical

2014 Actuarial Valuation

The 2014 Actuarial Valuation was undertaken for the Fund as at 31 March 2014 and was completed during the financial year 2014/15 by the Fund's actuaries, Barnett Waddingham. It has been undertaken in accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The funding level of the Fund as at the 31 March 2014 was 101%, above the valuation as at 31 March 2011 and this corresponded to a surplus of £2.9m. The following table summarises the funding position.

| Past Service Funding Position – Scottish Borders Council Pension Fund | | |
|--|--------------------|--------------------|
| Valuation Date as at 31 March | 2011 £m | 2014 £m |
| Value of the Scheme Liabilities | (402.2) | (487.6) |
| Smoothed Asset Value | 384.8 | 490.5 |
| Surplus/ (Deficit) | (17.4) | 2.9 |
| Funding Level | 96% | 101% |

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two.

The next detailed actuarial valuation will be carried out for the Fund as at 31st March 2017.

New LGPS Benefits Impact on Benefits Projections

The Actuarial Valuation Report identified the estimated additional pension and lump sum benefits projected to come into the payments of benefits in each year during the period 1 April 2015 to 31 March 2018 as a result of the changes to the LGPS benefits. These are set out as follows:

| Financial year | Additional Retirement Benefits | Increase versus 2014/15 Base |
|---------------------------|---------------------------------------|-------------------------------------|
| 2014/15 Base (per Note 8) | | 19.1 |
| 2015/16 | 3.4 | 17.8% |
| 2016/17 | 5.2 | 27.2% |
| 2017/18 | 5.4 | 28.3% |

Valuation Assumptions

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2014) were:

| | 2011 Valuation | | 2014 Valuation | |
|--------------------------------|-----------------------|--------------------|-----------------------|--------------------|
| | % p.a. | Real % p.a. | % p.a. | Real % p.a. |
| Investment Return | | | | |
| Equities/absolute return funds | 6.9 | 3.4 | 5.9 | 2.6 |
| Gilts | 4.3 | 0.8 | 3.6 | - |
| Bonds | 5.5 | 2.0 | 4.1 | 0.5 |
| Property | 5.5 | 2.0 | 5.5 | 1.9 |
| Multi Asset Fund | - | - | 5.9 | 2.3 |
| Expense Allowance | | | | |
| Retail Price Inflation (RPI) | 3.5 | - | 3.6 | - |
| Pay Increases – Long Term | 5.0 | 1.5 | 4.6 | 2.0 |
| Pension Increases | 3.0 | (0.5) | 2.8 | (0.8) |
| Discount Rate | 6.4 | 2.9 | 5.5 | 1.9 |

Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S1PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2013 projections, with a long term rate of improvement 1.5%.

Commutation Assumption

It is assumed that future retirees will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules.

Employer Contribution Rates

As part of the 2014 Actuarial Valuation, the actuary certified the common rate of contribution as 18% of payroll for the next three years.

Individual and pooled employers' rates vary from the common contribution rate (18.0%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e. the rate which employers in the Fund pay):

| Employers Contribution Grouping | Employers Contribution Rate | |
|---|-----------------------------|---------|
| | 2015/16 | 2016/17 |
| Scottish Borders Council Common Pool | 18.0% | 18.0% |
| Leisure Trusts Common Pool * | 15.5% | 15.5% |
| LIVE Borders | | 18.0% |
| Scottish Borders Housing Association – Individual | - | 19.0% |

* During the inter-valuation period the Pension Fund Committee agreed, in consultation with the actuary, to reduce the rate for Borders Sport and Leisure Trust in order that they would undertake work to open up the LGPS scheme to their employees again. This was set at 15.5%. The amalgamation of BSLT and the Council Culture services into LIVE Borders however resulted in a revised rate of 18%.

24 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the Triennial Funding Valuation, the Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

This uses the same base data as the Triennial Funding Valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

The actuarial present values, calculated in line with IAS 19, are set out in the table below.

| | Net Pension Asset as at: | | |
|--|--------------------------|---------------------|---------------------|
| | 31 March 2015 £m | 31 March 2016 £m | 31 March 2017 £m |
| Present value of the defined benefit obligations | (716.6) | (696.9) | (906.9) |
| Fair Value of Fund Assets* (bid value) | 537.4 | 542.7 | 652.7 |
| Net Asset/(Liability) | (179.2) | (154.2) | (254.2) |

This figure is used for statutory accounting purposes by the Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed below:

| | At 31 March 2015 | | At 31 March 2016 | | At 31 March 2017 | |
|------------------------------|---------------------|--------|---------------------|----------------|---------------------|----------------|
| | % p.a. | % p.a. | % p.a. | Real % p.a. | % p.a. | Real % p.a. |
| Discount Rate | 3.3 | 0.1 | 3.7 | 0.4 | 2.7% | 0.0% |
| Retail Price Inflation (RPI) | 3.2 | - | 3.3 | - | 2.7% | - |
| Pay Increases – Long Term | 4.2 | 1.0 | 4.2 | 0.9 | 3.7% | 1.0% |
| Pension Increases | 2.4 | (0.8) | 2.4 | (0.9) | 2.7% | 0.0% |

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 Triennial Funding Valuation (see Note 20) because IAS 19 stipulates a discount rate rather than a rate that reflects the market rate for investment returns on the Fund's assets.

25 CONTINGENT ASSETS

One of the admitted body employers in the Pension Fund holds an insurance bond to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

26 POST BALANCE SHEET EVENTS

INDEPENDENT AUDITOR'S REPORT



SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2017

**Finance
Chief Executive
Version: 2017 Pension Fund Committee**

Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 22 June 2017.

1. The statutory requirements concerning the SIP

1.1 The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) that includes the policy on:

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed¹
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending¹

1.2 The Statement must also state the extent of compliance with guidance given by the Scottish Ministers. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.¹

¹ “Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)”

2. Governance

- 2.1 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, the Scottish Borders Council Pension Fund (the Fund).
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to changes in fund manager, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.
- 2.6 The SIP forms part of a governance framework that includes:
 - The Statutory Regulations
 - The Pension Fund Committee
 - The Pension Fund Investment & Performance Sub-Committee
 - The Pension Board
 - The Fund's Advisers
 - The Funding Strategy Statement²²and
 - The Governance Policy and Compliance Statement².
- 2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

² Funding Strategy Statement and Governance Policy and Compliance Statement can be found at www.scotborders.gov.uk/pensions

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

“To provide for members’ pension and lump sum benefits on their retirement or for their dependants’ benefits on death before or after retirement, on a defined benefits basis.”

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

Funding Objectives

3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

- i To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- ii To build up the required assets in a way that produces employer contributions, which are as stable as possible.

3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

4. Investment Policy

Investment Strategy

- 4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.
- 4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.
- 4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.
- 4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.
- 4.5 The Fund presently has a marginal positive cash flow and currently has more actively contributing members compared to members receiving pensions. It however also has 2,652 deferred members which are currently neither contributing nor receiving – as a result it is not mature and therefore need not, at present, provide a high level of annual income to meet the cost of benefits. It will therefore continue to seek capital growth to meet future liabilities.
- 4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who have supported the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.
- 4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.
- 4.8 The Committee undertook a full review exercise in 2013, taking into account the funding status and liabilities and using asset liability modelling. A further review was again undertaken in August 2016 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period.
- 4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

Investment Management Arrangements

- 4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Harris Associates (Harris), Partners Group, Blackrock, Permira and Baillie Gifford, as appropriate.
- 4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.

- 4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.
- 4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.
- 4.14 The Fund's current **total target is to generate a return of at least 2.7% above CPI inflation** assumed as the real discount rate at the actuarial valuation as at 31 March 2014.
- 4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.
- 4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.
- 4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 March 2015.

Risk Measurement and Management

4.19 *Asset Allocation*

- i The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration, matched index-linked government bonds, i.e. the most natural "matching" asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.
- ii In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities. Following this rationale, the Fund deliberately runs an unmatched strategy which is heavily biased towards "growth" assets such as equities, property and other alternative assets.
- iii The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.
- iv As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2016 by the Fund's investment consultant, it is envisaged that this will next be done during 2018/19 following the actuarial valuation as at 31 March 2017.
- v The retrospective impact of investment risk on the Fund's funding position is monitored on a quarterly basis via investment reports prepared by the Fund's investment managers, the Fund's performance monitoring company and the investment consultants.

4.20 *Investment Managers*

- i To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.

- ii The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or out performs their individual targets.
- iii The managers must also provide data to Northern Trust, the company chosen by the Committee to provide it with independent performance comparisons.
- iv The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.
- v The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month's notice.
- vi All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

4.21 *Proper Advice*

- i The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

| | |
|-----------------------|--------------------|
| Investment Consultant | KPMG |
| Actuaries | Barnett Waddingham |

4.22 *Concentration Risk and Diversification*

- i Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund's assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.
- ii Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.
- iii This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

4.23 *Transition Management Arrangements*

- i A specialist transition manager, currently State Street Global Markets (State Street), will be employed to manage complex changes in investment strategy and/or manager(s).
- ii The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

4.24 *Currency Risk*

- i During 2016 the Committee approved the full removal of the Passive Currency Hedging mandate. As long term investors the overseas currency exposure will act as an offset against losses in severely stressed market environments.

4.25 *Safe Keeping of Assets*

- i The services of a global custodian, currently Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.
- ii The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.
- iii The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.
- iv Investment in pooled funds managed by UBS, Morgan Stanley, M&G, Partners Group, Blackrock, Permira and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

4.26 *Cashflow Risk and Realisation of Investments/Liquidity*

- i The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.
- ii The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.
- iii A small proportion of the Fund's investments, in particular Property, and future investments in other alternative assets would take longer to be realised.

5. Types of Investment

5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions
- Infrastructure

5.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian. For the Fund's investments in pooled funds managed by UBS, UBS participate in a stock lending programme where the revenue is reflected in the unit price. UBS AG (the parent company) acts as the principal counterparty so irrespective of the end borrower UBS' counterparty risk is only to UBS AG. Security is provided for the

stock loaned by the borrower transferring ownership of other collateral assets to UBS for the period of the loan.

6. Environmental, Social and Corporate Governance Issues

- 6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.
- 6.2 The Committee believes that environmental, social and governance issues can affect the financial performance of companies and that it has a responsibility to take these issues seriously and where appropriate, to act upon them.
- 6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund's fiduciary responsibilities.
- 6.4 The Committee recognises its responsibility to exercise voting rights to ensure transparency and accountability in corporate governance.
- 6.5 The Fund's investment managers maintain close contact with the management of companies in which investments are held or contemplated and subject their affairs to considerable analysis and skilled scrutiny. In recognition of this activity, the Sub-Committee delegates to its managers all voting and other rights attaching to Fund investments.
- 6.6 The investment managers have delegated powers to exercise such rights in the best financial interests of the Fund and would in particular expect them to vote appropriately at company Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 6.7 To demonstrate their commitment to ESG Fund Managers are encouraged to sign the United Nations Principles of Responsible Investment (UNPRI) Stewardship Code.
- 6.8 The Committee has, however, drawn the attention of managers to its general concern that the remuneration practices of companies should be patently fair and reasonable. It has asked that managers reflect such concern when voting shares in companies in which the Fund is directly invested. The Committee is content to allow its managers discretion on the voting of in-house pooled fund shares subject to referring any matters relating to the remuneration of Fund managers to it for direction
- 6.9 The key highlights in terms of voting actions taken by investment managers is included as part of the quarterly investment manager report to the Committee its investment consultant.

7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team, and comes within the remit of the Council's Audit and Risk Committee.
- 7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund, for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to

employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.

- 7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

8. Compliance with the Myners principles

- 8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*.
- 8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.
- 8.4 The six principles are:
- i Effective Decision Making
 - ii Clear Objectives
 - iii Risk and Liabilities
 - iv Performance Assessment
 - v Responsible Ownership
 - vi Transparency and Reporting
- 8.5 **Appendix 5** contains this statement of compliance.

Appendix 1

Pension Fund Investment and Performance Sub-Committee

The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment and Performance Sub-Committee:

1. Reviewing the Pension Fund's Statement of Investment Principles.
2. Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
3. Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
4. Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
5. Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
6. Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

Pension Board

The Council approved the Constitution for the Pension Board (the Board) on 2 April 2015.

1. The Objectives of the Board are as follows:

The Board is the body responsible for assisting the Scheme Manager in relation to:

- i Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- ii securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- iii such other matters as the regulations may specify .

2. The Board also has the remit to determine the areas they wish to consider including, amongst others:

- d) Reports produced for the Pension Fund Committee;
- e) Seek reports from the Scheme Manager on any aspect of the Fund;
- f) Monitor investments and the investment principles/strategy/guidance;
- g) The Annual Report and Accounts for the Fund;
- h) External voting and engagement provisions in relation to investments;
- i) Pension Fund Administrative Strategy and associated performance;
- j) Actuarial reports and valuations;
- k) Funding Strategy Statement and associated policy; and
- l) Any other matters that the Board deems appropriate within the responsibilities set out in 1 above.

Appendix 3

Strategic Asset Allocation

| Asset Class | Manager | Strategic Benchmark % | Permitted Range / Tolerance % |
|----------------------------------|--------------------|-----------------------|-------------------------------|
| UK Equity | UBS ¹ | 9.0% | |
| | Baillie Gifford | 5.0% | |
| | Sub Total | 14.0% | 12% - 16% |
| Global Equity | Harries Associates | 7.0% | |
| | Baillie Gifford | 16.0% | |
| | Morgan Stanley | 10.5% | |
| | Sub Total | 33.5% | 30% - 37% |
| Total Equity | | 47.5% | 42% - 53% |
| Bonds | | | |
| Alpha Opportunities | M&G | 10.0% | |
| Index Linked Gilts | | 5.0% | |
| | Total | 15.0% | 12% - 17% |
| Alternatives ² | | | |
| Multi-Asset Alternatives Fund | LGT Partners | 7.5% | |
| Private Credit | Permira | 5.0% | |
| | Partners Group | 5.0% | |
| Infrastructure | | 5.0% | |
| | Total | 22.5% | 20% - 25% |
| Property | | | |
| Balanced Property | UBS | 5.0% | |
| Long Lease Property | Blackrock | 10.0% | |
| | Total | 15.0% | 12% - 17% |
| Cash | | 0.0% | |
| Total | | 100.0% | |

Note:

¹ This is a passive investment mandate which requires the FTSE All Share index to be tracked.

² Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

Appendix 4

Investment Management Arrangements

| Asset Class | Manager | | Performance Objective (net of fees) | Benchmark Indices Used |
|--------------------------------------|--------------------|------------------|-------------------------------------|--|
| UK Equity | UBS | Benchmark Return | +0.0% | FTSE All-Share Index |
| | Baillie Gifford | Benchmark Return | +1.0% | FTSE All-Share Index |
| Global Equity | Harries Associates | Benchmark Return | +2.5% | MSCI All Country World Index |
| | Baillie Gifford | Benchmark Return | +2.5% | MSCI AC World Index |
| | Morgan Stanley | Benchmark Return | Not Defined | MSCI World Net Index |
| Bonds | | | | |
| Alpha Opportunities | M&G * | Benchmark Return | +3.5% - 5% | 1 Month LIBOR |
| Govt Fixed Interest Bonds | M&G | Benchmark Return | +0.75% | FTSE Actuaries UK Conventional Gilts All Stock Index |
| Corporate Fixed Interest Bonds | M&G * | Benchmark Return | +0.8% | iBoxx Sterling Non-Gilts Index |
| Index Linked Gilts | TBC | TBC | TBC% | TBC |
| Multi-Asset Alternatives Fund | LGT Partners | Benchmark Return | +4.0% | LIBOR |
| | Permira | Benchmark Return | +4.0% | 1 month LIBOR (Cash) |
| | Partners Group | Benchmark Return | +4.0% | 1 month LIBOR (cash) |
| | Infrastructure | | +3.5% | RPI |
| Property | UBS | Benchmark Return | +0.75% | IPD UK PPFI All Balanced Funds Index |
| | Blackrock | Benchmark Return | +2.5% | RPI |

Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund's current status in relation to compliance .

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|---|
| <p>1. Effective Decision-Making</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. | <ul style="list-style-type: none"> • The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity. • The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified. • The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making. • There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions. | <p>Full Compliance</p> <ul style="list-style-type: none"> • The Fund has a designated committee – the Committee - with the experience and skills to take decisions. • The Committee's terms of reference is contained within the Scheme of Administration for the Council. • The Committee receives training either during meetings or at specific training sessions, including on investment issues. • Induction training is provided for new Members and Officers. • The Committee has an appointed investment consultant to provide specific investment advice. • The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee |
| <p>1. Effective Decision-Making (contd.)</p> | <ul style="list-style-type: none"> • It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making. | <ul style="list-style-type: none"> • The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making. • The Committee carry out regular reviews of the Fund and compliance with regulations. • The Investment Consultant, |

| Principle | Best Practice Guidance | Fund's Current Status |
|-----------|---|---|
| | <ul style="list-style-type: none"> • The committee should obtain proper advice at reasonable intervals from suitably qualified persons. • The Chief Financial Officer should be given responsibility for developing a training plan for committee members. • A business plan should be in place which should include milestones and should review level of resources needed. • Members allowances should be published and reviewed regularly. • Meeting papers should be clear and circulated sufficiently in advance of the meetings. | <p>Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee.</p> <ul style="list-style-type: none"> • The Committee's legal advisers and any other relevant parties review any new investment contracts put in place. • There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members. • Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer • A business plan was agreed by the Committee on 16 June 2016 • Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007. • Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site. |

| Principle | Best Practice Guidance | Fund's Current Status |
|--|--|---|
| <p>2. Clear Objectives</p> <ul style="list-style-type: none"> An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. | <ul style="list-style-type: none"> The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities. The desirability of asset liability modelling should be considered. Proper advice should be taken where appropriate. Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return. Peer group benchmarks should be avoided. | <p>Full compliance</p> <ul style="list-style-type: none"> The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers to inform the Investment Strategy. The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the Committee set the investment managers individual mandate objectives and risk parameters. An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation. Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices. The Committee regularly reviews the investment |

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|---|
| <p>2. Clear Objectives (contd)</p> | <ul style="list-style-type: none"> • Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available. • Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention. • The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established. • Transaction and transition costs should be fully understood. | <p>structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the appointment of managers which includes a review of cost, objectives and mandates (including risk).</p> <ul style="list-style-type: none"> • The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio. • At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers. • When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored. • As part of any transition the costs are reported to Committee and compared with the target level set prior to transition. |

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|--|
| <p>3. Risk and Liabilities</p> <ul style="list-style-type: none"> • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. | <ul style="list-style-type: none"> • The committee should have a clear policy on willingness to accept underperformance due to market conditions. • Acceptable tolerances from market index benchmarks returns should be stated. • Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices. • Overall fund objectives should be expressed in terms which relate to the liabilities. • The committee must receive an assessment of the risks associated with their liabilities, valuation and management. • The annual report should include an overall risk assessment. | <p>Full compliance</p> <ul style="list-style-type: none"> • The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy. • Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors. • The overall Fund investment objective is expressed in terms which relate to the liabilities. • The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. It has agreed to undertake a similar review during 2017 following the 2017 Actuarial valuation.. • The annual report includes a Risk Management Statement |

| Principle | Best Practice Guidance | Fund's Current Status |
|--|---|---|
| 3. Risk and Liabilities (contd) | <ul style="list-style-type: none"> • The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer. • The committee should ensure the investment strategy is consistent with the scheme employers ability to pay. | <ul style="list-style-type: none"> • The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls. • The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay. |

| Principle | Best Practice Guidance | Fund's Current Status |
|---|---|--|
| <p>4. Performance Assessment</p> <ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members. | <p>Investments</p> <ul style="list-style-type: none"> • The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls. • The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales. • Constraints on active managers should not be overly narrow or overly wide. • Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods. • Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency. <p>Advisers</p> <ul style="list-style-type: none"> • Assessment should take account of the extent of decisions delegated. | <p>Full compliance</p> <ul style="list-style-type: none"> • The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. • Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. • The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods. • The performance of the investment managers is measured quarterly by an independent performance monitoring company. • A comprehensive quarterly performance report is presented to the Committee. • Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports. • The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations. |

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|---|
| <p>4. Performance Assessment (contd)</p> | <ul style="list-style-type: none"> A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors. <p>Decision making bodies</p> <ul style="list-style-type: none"> The committee's self assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report. | <ul style="list-style-type: none"> Factors such as past performance and price are taken into account when re-tendering for external advisers. Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for. |

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|--|
| <p>5. Responsible Ownership</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, • includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities. | <ul style="list-style-type: none"> • Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report. • The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers. • The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. • The committee should ensure its policies are not overridden by an investment manager's general policies. • The committee should ensure that investment consultants adopt the Institutional Shareholder Committee's (ISC) Statement of Practice relating to consultants. • The ISC's Statement of Principles on the | <p>Full compliance</p> <ul style="list-style-type: none"> • The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents. • The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund. • The Statement of Investment Principles includes a statement of the Committee's policy on responsible ownership. • Voting on underlying shareholdings is delegated to the fund manager. • Details of the investment manager's house strategy are requested from the manager. • Feedback on interventions to be provided during meeting with manager (minimum of once per annum). • The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants. |

responsibilities of Institutional shareholders should be noted.

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|---|
| <p>6. Transparency and Reporting</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to scheme members in the form they consider most appropriate. | <p>Reporting ensures that:</p> <ul style="list-style-type: none"> An integrated approach to governance should be built and governance compliance statements should be maintained regularly. The Fund's communication statement must set out the policy on the provision of information, the format and the promotion of the scheme. Examples of good communication from other funds should be sought. Annual report content should be compared to the regulations. Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information. The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance. The committee should know its stakeholders and the interests they have. | <p>Full compliance</p> <ul style="list-style-type: none"> The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year. Examples of good communication from other funds are sought. Communications are sent to members whenever important changes to the Fund take place, or to provide updates. The Fund operates transparently and enhances accountability to scheme members. The Fund's Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance. |

VERSION CONTROL TABLE

| Version | Nature of Amendment | Date of Change | Author |
|----------------|---|----------------|---|
| 2000 1.0 | SIP – created | March 2000 | A Bowman |
| 2006 1.0 | SIP – update | March 2006 | A Bowman |
| 2010 1.0 | Draft SIP – updated to reflect updated FSS and new Myners Principles | March 2010 | L Mirley in collaboration with Aon Consulting |
| 2010 2.0 | Final Draft of SIP to present to Pension Fund Sub-Committee | June 2010 | L Mirley |
| 2013 1.0 | Final Draft of SIP to present to Pension Fund Committee | Dec 2013 | K Robb |
| DRAFT 2015 1.0 | Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers | June 2015 | L Mirley |
| DRAFT 2015 2.0 | Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review | June 2015 | L Mirley |
| Draft 2017 1.0 | Final draft of SIP to present to Pension Fund Committee on 22 June 2017 | June 2017 | K Robb |

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Contact us at Kirsty Robb, Capital & Investments Manager, Council HQ, Newtown St Boswells
01835 825249, treasuryteam@scotborders.gov.uk

GLOSSARY OF TERMS

ACTIVE MANAGEMENT

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or asset allocation. Compare this with Passive Management.

ASSET ALLOCATION

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short term tactical changes might be made to achieve short-term advantage.

ALTERNATIVE ASSETS

This is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult.

BALANCED MANAGEMENT

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with specialist management.

BENCHMARK RETURN

This is calculated against the Fund's chosen "benchmarking" group, which comprises a composite of different market indices. The indices in use cover all the markets in which the Fund is invested.

CONTRIBUTING MEMBER

This is someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an "active" member.

DEFERRED MEMBER

This is someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.

GROWTH MANAGER

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with value manager.

INVESTMENT MANAGER/FUND MANAGER

A person or organisation that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients

MANDATE

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

PASSIVE MANAGEMENT

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with active management.

PENSIONER/DEPENDENT MEMBER

This is someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.

POOLED FUND

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

REALISED GAIN OR LOSS

Only when an investment is sold does the Fund actually make a profit or loss.

Realised profits and losses are those that have actually arisen via sales throughout the year.

RETURN

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

RISK

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

SEGREGATED FUND

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

SPECIALIST MANAGEMENT

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

UNREALISED GAIN OR LOSS

The Statements of Accounts are based on the market value of investments at 31 March 2016. This means that these show what profit or loss would have made if the Fund had sold all its investments on that day. The result is a notional "unrealised" profit or loss.

VALUE MANAGER

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

VESTED/NON VESTED OBLIGATIONS

Vested obligations refer to employee benefits that are not conditional on future employment. Non vested obligations refer to employee benefits that are conditional on future employment.

PENSION FUND STRAIN

The cost to employers of the early release of pension benefits.

ADDITIONAL INFORMATION

Key Documents Online

You can find further information on our website, www.scotborders.gov.uk/pensions, including the following documents:

- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Training Policy
- Business Plan 2015/16 to 2017/18
- Actuarial Valuation Statement 2014

Fund Advisers

| | |
|---|---|
| Actuaries: | Barnett Waddingham |
| Auditors: | KPMG |
| Bankers: | Bank of Scotland |
| Investment Consultancy: | AON Hewitt to 31 March 2016, KPMG from 12 April 2016 |
| Investment Custodians: | JP Morgan to 30 Nov 2106, Northern Trust from 1 Dec 2016 |
| Investment Managers: | Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G, Partners Group and Harris Associates |
| Additional Voluntary Contributions (AVC) Managers: | Standard Life |

Contact Details

For further information and advice on administration, benefits and scheme membership please contact

| | | |
|---------------|---|----------|
| Graeme Wilson | Telephone 01835 – 824000 | Ext 5341 |
| | E-mail gwilson@scotborders.gov.uk | |

Scheme members should have a copy of the “Employees’ Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council”, and can obtain their own copy of an Annual Report on request.

or visit Scottish Borders Council Pension Fund website at: www.scotborders.gov.uk/pensions

For further information on the Fund’s investments, please contact

| | |
|------------------------------|---|
| Kirsty Robb | Telephone 01835 – 825249 |
| Capital & Investment Manager | E-mail krobb@scotborders.gov.uk |

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LOCAL CODE OF CORPORATE GOVERNANCE

Report by Chief Executive

AUDIT AND SCRUTINY COMMITTEE

28 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of this report is to propose that the revised Local Code of Corporate Governance of Scottish Borders Council be considered and be recommended by the Audit and Scrutiny Committee for approval by full Council.**
- 1.2 Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.
- 1.3 Fundamentally Corporate Governance is about openness, integrity and accountability. It comprises the systems and processes, and cultures and values by which the authority is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its communities.
- 1.3 The development of a revised Local Code of Corporate Governance for the Council, consistent with the principles and requirements of the Framework 2016 'Delivering Good Governance in Local Government', will help to ensure proper arrangements continue to be in place to meet these responsibilities.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Scrutiny Committee:**
- (a) **Consider the revisions to the Local Code of Corporate Governance of Scottish Borders Council that is attached to this report as Appendix 1, and recommend it for approval by full Council;**
 - (b) **Instruct that the Local Code of Corporate Governance be re-launched to ensure greater awareness across the Council; and**
 - (c) **Request that the Chief Executive and Service Directors consider compliance with the Code as part of their annual assurance statements on internal control and governance and implement actions to ensure full compliance to the elements of the Code.**

3 BACKGROUND

- 3.1 Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.
- 3.2 Fundamentally Corporate Governance is about openness, integrity and accountability. It comprises the systems and processes, and cultures and values, by which councils are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 3.3 Scottish Borders Council aims to meet the highest standards of corporate governance. The Council operates through a governance framework for the conduct of its affairs which brings together an underlying set of legislative requirements, governance principles and management processes. The Council's Local Code of Corporate Governance was previously approved by full Council on 19 May 2016.
- 3.4 A new CIPFA/SOLACE 'Delivering Good Governance in Local Government' 2016 Edition (the 2016 Framework) was published in Spring 2016. This applies to Annual Governance Statements prepared for the financial year 2016/17 onwards, and associated guidance for Scottish Authorities was published in November 2016. The Council's Local Code of Corporate Governance has therefore been updated as part of the annual assurance process for 2016/17 to comply with the principles and requirements of the 2016 Framework.
- 3.5 The 2016 Framework defines the seven (previously six) core principles of good governance, namely:
 - A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - B. Ensuring openness and comprehensive stakeholder engagement
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes
 - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - F. Managing risks and performance through robust internal control and strong public financial management and
 - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
- 3.6 The Framework urges local authorities to test their structure against these principles by:
 - (a) Reviewing their existing governance arrangements against the Framework.
 - (b) Developing and maintaining an up-to-date local code of governance including arrangements for ensuring its on-going application and effectiveness.
 - (c) Preparing a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.

3.7 The Council undertakes an annual review of its governance arrangements. An officer Governance Self-Assessment Working Group carries out a self-assessment of compliance with the Local Code to inform the Service Directors' assurance statements to the Chief Executive. The outcome of the annual review is reported to the Audit and Risk Committee within the Annual Governance Statement by the Chief Executive prior to its inclusion within the published Statement of Accounts. During the 2016/17 review the Group concluded that revisions are required to the Local Code to ensure it reflects the changing context of Scottish Borders Council, and complies with the new Framework.

4 PROPOSALS

- 4.1 Revisions are required to the Scottish Borders Council Local Code of Corporate Governance (Local Code), which is attached to this report as Appendix 1, to ensure it continues to be a value-added tool for members and officers of the Council in the conduct of the Council's affairs.
- 4.2 The main changes to the Local Code cover:
- (a) Updating existing and formalising new partnership arrangements e.g. the Health and Social Care Integration Joint Board.
 - (b) Updating existing monitoring and review arrangements of service performance of Alternative Service Delivery Models.
 - (c) Developments in Consultation and Engagement activities.
 - (d) The layout of the document to ensure it is compliant with the new Framework.
- 4.3 The approval of the revised Local Code (Appendix 1), will ensure the Council meets the requirements of the CIPFA/SOLACE 2016 Framework. Good governance enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for compliance with applicable legislation and guidance, control and management of risk, delivery of best value, and monitoring the adequacy and effectiveness of the arrangements in practice.
- 4.4 The Framework emphasises the importance of good governance to the wider outcomes of good management, good performance, and good public engagement. It puts high standards of conduct and leadership at the heart of good governance, placing responsibility on members and officers to demonstrate leadership by behaving in ways that exemplify high standards of conduct, and so set the tone for the rest of the organisation.
- 4.5 The Council will continue to undertake an annual review and reporting of its governance arrangements. The Annual Governance Statement provides assurance that internal control and governance arrangements are adequate and operating effectively in practice or, where reviews of the internal control and governance arrangements have revealed gaps, action is planned that will ensure effective internal control and governance in future.
- 4.6 This process not only creates an opportunity for the Council to set out its standard for good governance but also to ensure that its governance arrangements are seen to be sound. This is important as the governance arrangements in public services are closely scrutinised.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications arising from the proposals in this report. Arrangements to ensure that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively is an integral part of good corporate governance and therefore financial governance and key internal financial controls are embedded within the revised Local Code of Corporate Governance.

5.2 Risk and Mitigations

The review of and revisions to the Local Code of Corporate Governance will ensure that internal controls, risk management and other governance arrangements are improved through the implementation of the framework.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 The Corporate Management Team, Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report and the revised Local Code and any comments received have been taken into account.

Approved by

Tracey Logan, Chief Executive

Signature

Author(s)

| Name | Designation and Contact Number |
|-------------|---|
| Jill Stacey | Chief Officer Audit & Risk Tel 01835 825036 |

Background Papers: CIPFA/SOLACE 'Delivering Good Governance in Local Government' 2016 Edition (2016 Framework); Scottish Borders Council Annual Governance Statement 2016/17

Previous Minute Reference: Scottish Borders Council 19 May 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

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Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council operates through a governance framework for the conduct of its affairs which brings together an underlying set of legislative requirements, governance principles and management processes. The Council's revised Local Code of Corporate Governance, which is consistent with the principles and requirements of the CIPFA/SOLACE Framework 2016 "Delivering Good Governance in Local Government", will help to ensure proper arrangements continue to be in place to meet the Council's responsibilities.

The concept underpinning the Framework is that it assists local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework helps authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The environment in which it works local government is increasing in complexity. The Public Bodies (Joint Working) (Scotland) Act 2014 and other legislation have brought about new roles, opportunities and greater flexibility, as well as challenges for authorities.

The development of new structures, such as health and social care partnerships, necessitates the design of governance structures from the bottom up, ensuring that the core principles of good governance covering openness and stakeholder engagement, defining outcomes, monitoring performance and demonstrating effective accountability are integrated and embedded within the new structures and that mechanisms for effective scrutiny are established.

Whether working with other authorities, public sector bodies, the third sector or private sector providers, local authorities must ensure that robust governance arrangements are established at the outset. The 'Framework' defines the seven core principles of good governance, which the Council fully supports, namely:

- (i) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- (ii) Ensuring openness and comprehensive stakeholder engagement
- (iii) Defining outcomes in terms of sustainable economic, social, and environmental benefits
- (iv) Determining the interventions necessary to optimise the achievement of the intended outcomes
- (v) Developing the entity's capacity, including the capability of its leadership and the individuals within it
- (vi) Managing risks and performance through robust internal control and strong public financial management
- (vii) Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Scottish Borders Council aims to meet the highest standards of corporate governance to help ensure that it meets its objectives. It will test its structure against these principles by:

- Reviewing its existing governance arrangements against the 'Framework'
- Developing and maintaining an up-to-date Local Code of Governance including arrangements for ensuring its ongoing application and effectiveness
- Preparing a governance statement (Annual Governance Statement) in order to report publicly on the extent to which it complies with its own code on an annual basis, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes for the coming period.

The preparation and publication of an Annual Governance Statement in accordance with the Framework fulfils the statutory requirement for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. This process not only creates an opportunity for the Council to set out its standards for good governance but also to ensure that its governance arrangements are seen to be sound. This is important as the governance arrangements in public services are closely scrutinised.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

A1 Behaving with integrity

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 1 | Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation | Standards are set out in the Councillors Code of Conduct. Employees Code of Conduct reflects the values of the Council, incorporates “The Seven Principles of Public Life” identified by the Nolan Committee on Standards in Public Life, and includes Whistleblowing Policy. The Performance Appraisal scheme in place for officers (PRD) is based upon the Council’s Values and Standards and includes Demonstrating Positive Behaviours. |
| 2 | Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) | The Corporate Plan (led by CMT, approved by Council and published on website) sets out the Council’s vision, values and standards to guide the way it works and to inform strategies and policies based on priorities. |
| 3 | Leading by example and using these standard operating principles or values as a framework for decision making and other actions | Declarations of Interest are set out in the Council's Procedural Standing Orders which govern the conduct of each Committee meeting. Members Registers of Interest is published on the Council’s website. Monitoring Officer produces an Annual Report to the Standards Committee in accordance with Monitoring Officer Protocol (best practice). |
| 4 | Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively | Counter Fraud Policy and Strategy approved by Council. Councillors and Employees Codes of Conduct outline the arrangements for identifying, mitigating and recording conflicts of interest, hospitality and gifts. Declarations of Interest are set out in the Council's Procedural Standing Orders which govern the conduct of each Committee meeting. Members Registers of Interest is published on the Council’s website. Employees Code of Conduct includes Whistleblowing Policy. Complaints and comments policy and procedures in place for both Corporate and Social Work (statutory) service areas. Annual Complaints Reports to relevant committee. Chief Social Worker Annual Report presented to Council. |

A2 Demonstrating strong commitment to ethical values

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 1 | Seeking to establish, monitor and maintain the organisation's ethical standards and performance | Annual Governance Statement is the outcome of self-evaluation of compliance. The Audit and Scrutiny Committee remit includes role to ensure the highest standards of probity and public accountability are demonstrated. |
| 2 | Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation | Standards of conduct and behaviour including communication are set out in the Councillors and Employees Codes of Conduct (embodies Nolan principles). Induction programmes include the above to ensure competency. |
| 3 | Developing and maintaining robust policies and procedures | Employees Code of Conduct reflects the values of the Council, incorporates "The Seven Principles of Public Life" Council's values from Corporate Plan are included within PRD templates for appraisal. |
| 4 | Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation | Council's values from Corporate Plan are included within the Procurement Charter for external suppliers. Council policies and standards are incorporated into SB Cares service performance agreement. |

A3 Respecting the rule of law

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 1 | Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations | Advice and overseeing compliance on legal matters is provided by the Chief Legal Officer, the Monitoring Officer and the Clerk to the Council as set out in Scheme of Delegation, job descriptions, and protocols. |
| 2 | Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements | The Scheme of Delegation sets out the roles and responsibilities of statutory officers (Chief Executive, Chief Social Work Officer, Chief Financial Officer, and Monitoring Officer). Membership of Professional Bodies is required. |
| 3 | Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders | The Local Code of Corporate Governance includes Scheme of Administration, Procedural Standing Orders, Scheme of Delegation and Financial Regulations which reflect the legal requirements placed upon the authority. |
| 4 | Dealing with breaches of legal and regulatory provisions effectively. | The Service Director Regulatory Services fulfils the Monitoring Officer statutory role. Advice and overseeing compliance on legal matters is provided by the Chief Legal Officer, the Monitoring Officer and the Clerk to the Council as set out in Scheme of Delegation, job descriptions, and protocols. |
| 5 | Ensuring corruption and misuse of power are dealt with effectively | Revised Counter Fraud Policy and Strategy approved 2015. Counter Fraud Annual Report presented to Audit and Scrutiny Committee including assurance self-assessment. |

B. Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders

B1 Openness

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 1 | Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness | The Corporate Plan (led by CMT, approved by Council and published on website) sets out the Council's vision, values and standards (including "Be fair, equal and open") to guide the way it works and to inform strategies and policies based on priorities. Compliance with Data Protection and Freedom of Information legislation. |
| 2 | Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided | Calendar of main Council and Committee meetings. Minutes and committee reports are published on the Council's website. Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality. |
| 3 | Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear | Committee report templates include a section on implications covering financial, risks and mitigations, equalities, environmental, rural, schemes. Guidance on preparing Committee reports includes mandatory consultation in advance with the Chief Legal Officer, Chief Financial Officer, Monitoring Officer, Clerk to the Council, Chief Officer HR, and Chief Officer Audit and Risk. Calendar of main Council and Committee meetings. Committee reports are published on Council's website one week in advance of meeting dates. |
| 4 | Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action | The Scottish Borders Community Planning Partnership (SBCPP) Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods and enables engagement activities to be delivered in a consistent, cost effective and transparent manner. |

B2 Engaging comprehensively with institutional stakeholders

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 1 | Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably | Engage and communicate with institutional stakeholders in an appropriate manner e.g. health and social care integration; Scottish Borders Council is a partner in the Scottish Borders Health & Social Care Partnership along with NHS Borders through which there has been an extensive process of engagement leading to the publication of Locality Plans in October 2017 for integrated health and social care joint services. |
| 2 | Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively | The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders. |

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 3 | <p>Ensuring that partnerships are based on:</p> <ul style="list-style-type: none"> • trust; • a shared commitment to change; • a culture that promotes and accepts challenge among partners; and • that the added value of partnership working is explicit | <p>The Strategic Assessment underpins the strategic vision for the Council and its partners and the commitment to change.</p> <p>The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders. The SBCPP Governance Structure provides forum for challenge, and themes and priorities include sub-groups to support delivery. The SBCPP Improvement Action Plan arising from Audit Scotland review states Performance Management Framework is in development.</p> <p>SBC Support resources in kind e.g. to SB Cares, Live Borders, IJB</p> <p>SBC Elected Members are appointed to the Scottish Borders Health and Social Care Integration Joint Board.</p> |

B3 Engaging stakeholders effectively, including individual citizens and service users

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|---|
| 1 | <p>Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes</p> | <p>The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders.</p> <p>The Scottish Borders Health & Social Care Partnership's Strategic Plan 2016-2019 was developed following consultations with interested parties including members of the public, therefore highly co-produced.</p> |
| 2 | <p>Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement</p> | <p>The Community Plan produced in conjunction with local partners in public services, the private sector, voluntary sector and communities focusses on themes and includes targets and challenges in the plan.</p> |
| 3 | <p>Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs</p> | <p>The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders.</p> <p>SBC also has its own tool kit which is more prescriptive.</p> <p>Bi –annual Household survey conducted in 2015. (Survey will not be conducted in present form but consultation will take place in a more cost effective manner in 2017.)</p> |
| 4 | <p>Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.</p> | <p>The SBCPP Community Engagement Framework (2015) sets out principles for engagement and toolkit provides prompt lists of stakeholders.</p> |
| 5 | <p>Taking account of the interests of future generations of tax payers and service users</p> | <p>The Strategic Assessment is the body of evidence which underpins the strategic vision for the Council and its partners.</p> <p>Local Housing Strategy led by Council working with 4 main RSL's towards delivering future housing needs.</p> <p>School-Employer partnerships as part of developing the Young Workforce objectives and priorities (The Wood Report).</p> <p>SBC Elected Members are appointed to the Scottish Borders Health and Social Care Integration Joint Board</p> |

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available

C1 Defining outcomes

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|--|
| 1 | Having a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions | <p>The Council has a Single Outcome Agreement (SOA) in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council’s vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Council’s Corporate Plan and the SOA which are approved by Council. The SOA will be replaced by the Local Outcomes Improvement Plan (published 1st October 2017) underpinned by Locality Plans.</p> <p>The LOIP is essentially partnership based and will set out measures for reducing inequality and improving outcomes, thereby setting context for future service planning.</p> <p>The Scottish Borders Health & Social Care Partnership’s Strategic Plan 2016-2019 sets out the vision, strategic objectives and outcomes related to integrated health and social care services.</p> |
| 2 | Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer | Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include a section on implications covering financial, risks and mitigations, equalities, environmental, rural and governance. |
| 3 | Delivering defined outcomes on a sustainable basis within the resources that will be available | The Council has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee, and the Audit and Scrutiny Committee (through its scrutiny functions) reviews the achievement of policy objectives and priorities. |
| 4 | Identifying and managing risks to the achievement of outcomes | <p>Risk Management Policy and Strategy approved by the Council.</p> <p>Risk management practice embedded in business planning and performance management processes, underpinned by a corporate training programme.</p> |
| 5 | Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available | The Council’s Performance Management Framework establishes the mechanism for all services across the Council to ensure the Council meets its legal duty to provide best value to people. There is annual development and monitoring of Service plans and PIs which are aligned to Priorities. This includes a self-assessment process to evaluate actual versus standard service quality |

C2 Sustainable economic, social and environmental benefits

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|--|
| 1 | Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision | Project Business Cases for Capital Programme include assessment of need and strategic fit. As part of this asset life, as well as social and economic impact, is implicitly considered. Strategic Asset Management Plans (SAMPs) are being developed. Plans focus on social, economic, equality and regeneration using a locality approach. |
| 2 | Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints | The Corporate Transformation programme was approved to respond to the social, economic and demographic challenges facing the Council and still deliver high quality and improved services. |
| 3 | Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs | Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include a section on implications covering financial, risks and mitigations, equalities, environmental, rural and governance. |
| 4 | Ensuring fair access to services | Rural Proofing Policy and Committee reports include section on Rural implications Equality Impact Assessments relating to any new proposals; Equality Mainstreaming Report being prepared. Ensure consistent application of EIAs at approval and review during implementation. |

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

D1 Determining interventions

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|---|
| 1 | Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided | Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include a section on implications covering financial, risks and mitigations, equalities, environmental, rural, governance. Guidance on preparing reports for committee approved by Council. Committee reports are published on Council's website one week in advance of meeting dates. Officers attend Committee meetings to advise as appropriate. |
| 2 | Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts | Public engagement and communication as part of Financial Planning Process to reflect reducing resources e.g. Dialogue Community Engagement Tool, Q&A with Executive Members. Asset Reviews in tandem with Locality Plans. Citizen's views form outline for property rationalisation / prioritisation. First iteration to be complete by October 2017. Actions taken subject to Community Empowerment Act. |

D2 Planning interventions

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|--|
| 1 | Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets | Calendar of main Council and Committee meetings. |
| 2 | Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered | Community Engagement Toolkit Member / Officer Working Groups TU consultation forums Area Forum meetings |
| 3 | Considering and monitoring risks facing each partner when working collaboratively including shared risks | Risk Management Policy; improvement required on identification and management of shared risks. |

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 4 | Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances | Business Planning, Financial Planning and People Planning processes aligned to Corporate Plan priorities. The Corporate Transformation Programme sets out a far-reaching programme of change to enable the Council to respond to unprecedented social, demographic and economic challenges. The Programme supports the delivery of the Council's 8 Corporate Priorities and the delivery of the significant savings set out in the Financial Strategy and Plans. |
| 5 | Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured | Performance Management Framework approved by Council. KPIs set out in Corporate Plan / Business Plans reported monthly to CMT based on availability and within themes. Quarterly performance reporting to Executive Committee in themes; published on website. KPIs performance reporting feed through to wider partnerships including IJB performance reporting. |
| 6 | Ensuring capacity exists to generate the information required to review service quality regularly | Consolidated Business Management resources. Business Intelligence Programme is being developed with a view to delivering improvements to the quality of that data and the quality of management information and management reporting and assurance practices. |
| 7 | Preparing budgets in accordance with organisational objectives, strategies and the medium-term financial plan | Themed savings in Revenue plans. Project Business Cases for Capital Programme include assessment of need and strategic fit. |
| 8 | Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy | Medium Term Financial Strategy and plans for revenue (5-year) and capital (10-year) based on priorities led by CMT. Corporate Plan led by CMT reflects Priorities. |

D3 Optimising achievement of intended outcomes

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|---|
| 1 | Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints | Medium-Term Financial Strategy approved alongside Financial Plans. |
| 2 | Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term | Corporate financial planning process led by CMT; new obligations reflected in plan. |
| 3 | Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage | Medium-Term Financial Strategy The Corporate Transformation Programme supports the delivery of the Council's 8 Corporate Priorities and the delivery of the significant savings set out in the Financial Strategy and Plans. |
| 4 | Ensuring the achievement of 'social value' through service planning and commissioning <i>(Social Value is technically referred to as Community Benefit in Scotland)</i> | 'Adding Value for Communities through Procurement' community benefit guidance policy; will be subsumed into the next revision of the Procurement Strategy due April 2017. |

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

E1 Developing the entity's capacity

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|---|
| 1 | Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness | CMT Away Days – review progress of Corporate Transformation Programme. Senior Managers events – focus on transformation. |
| 2 | Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently | Performance Management Framework approved by Council. Local Government Benchmarking Framework; data submission August each year. |
| 3 | Recognising the benefits of partnerships and collaborative working where added value can be achieved | Options considered as part of cost rationalisation / corporate transformation e.g. SB Cares, ICT Contract with CGI |
| 4 | Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources | People Planning Process underway across the Council. Organisation-wide People Plan to be developed. |

E2 Developing the capability of the entity's leadership and other individuals

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|---|
| 1 | Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained | Regular meetings are held between Chief Executive and Leader. |
| 2 | Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body | The Council's Code of Corporate Governance, which is reviewed on a regular basis, includes Scheme of Administration, Procedural Standing Orders, Scheme of Delegation and Financial Regulations which reflect the powers delegated to specific committees and officers to enable effective and efficient fulfilment of their roles. |

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 3 | Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure, whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority | Regular meetings are held between Chief Executive and Leader. The Chief Executive is a Statutory post with job description. Responsibilities delegated to Chief Executive are detailed within the Scheme of Delegation. |
| 4 | Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:- | Induction Programme and access to Courses, Seminars and e-learning. Members Briefings Staff Team Briefings |
| - | - ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged | 'Introduction to becoming a Councillor' programme in advance of local elections (best practice). Identification of training needs for elected members as part of Elected Members Development Programme. Development and performance review process in place for all employees (PRD). Ongoing training programme (including e-learning, seminars and courses) for all staff and elected members. Training provided to elected members and officers in areas of identified need e.g. licensing, planning, employment, pension, audit, and data protection. CMT Away Days, Senior Manager Events and relaunch of Managers Training. |
| - | - ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis | Identification of training needs for elected members as part of Elected Members Development Programme. Development and performance review process in place for all employees (PRD). |
| - | - ensuring personal, organisational and system wide development through shared learning, including lessons learnt from both internal and external governance weaknesses | People Planning Process and toolkit; improvement required on full compliance and consistency across Services. Work Opportunities policy. |
| 5 | Ensuring that there are structures in place to encourage public participation | The SBCPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods and enables engagement activities to be delivered in a consistent, cost effective and transparent manner. |
| 6 | Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections | The mid-term report in October 2015 of performance against Corporate Plan provides evidence of how the Executive Committee is fulfilling its remit. Annual self-evaluation of effectiveness of Audit and Scrutiny Committee against best practice guidance and Annual Report to Council thereon. |
| 7 | Holding staff to account through regular performance reviews which take account of training or development needs | Development and performance review process in place for all employees (PRD). |
| 8 | Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing | HR Attendance Management Policy and Procedure. Occupational Health arrangements (Contract with People Asset Management (PAM)). Employee Assistance Programme (PAM). Employee Benefits roll-out. HR Training – Mindfulness and Personal Resilience; 'Small Changes Big Differences'. |

F. Managing risks and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

F1 Managing risk

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|--|
| 1 | Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making | Risk management practice embedded in business planning and performance management processes. Corporate, Strategic and Operational risk registers, programme and project risk registers, and partnership risk registers developed. Committee Report templates include a section on implications covering risks and mitigations. |
| 2 | Implementing robust and integrated risk management arrangements and ensuring that they are working effectively | Risk Management Policy and Strategy scrutinised by Audit and Scrutiny Committee and then approved by the Council. Risk Management Annual Report to enable Audit and Scrutiny Committee to evaluate effectiveness of managing risk. Improvement Plan includes management engagement and more consistent application across service areas. |
| 3 | Ensuring that responsibilities for managing individual risks are clearly allocated | Risk Management Policy sets out Roles and Responsibilities to manage risks effectively. |

F2 Managing performance

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|---|
| 1 | Monitoring service delivery effectively including planning, specification, execution and independent post-implementation review | Monitoring and progress reports on the Corporate Transformation Programme, Financial Plans and Corporate Performance are presented quarterly to Executive Committee for monitoring and review purposes. Public Performance Reporting published on Council's website. |
| 2 | Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook | Reports to Committees include a section on implications covering financial, risks and mitigations, equalities, environmental, rural, and governance. Committee reports are published on Modern.gov one week in advance of meeting dates. Guidance on preparing Committee reports. |

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|--|
| 3 | <p>Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (OR, for a committee system)</p> <p>Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making</p> <p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p> | <p>The Council's scrutiny arrangements are established through the Scheme of Administration (approved January 2015; amended January 2017) through committee structures and specified remits.</p> <p>The Scrutiny Committee's main remit is for monitoring and reviewing policy decisions, and to also act as a focus for value for money and service quality exercises.</p> <p>The Scrutiny Committee agenda and minutes are published on Modern.gov</p> |
| 4 | <p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p> | <p>Calendar of meetings approved by Council in advance. Timetables for preparation of and consultation on reports to meet publication dates.</p> |
| 5 | <p>Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)</p> | <p>Code of Corporate Governance documents includes Procedural Standing Orders and Financial Regulations which are reviewed on a regular basis.</p> |

F3 Robust internal control

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|--|
| 1 | <p>Aligning the risk management strategy and policies on internal control with achieving objectives</p> | <p>Risk Management Policy and Strategy scrutinised by Audit and Scrutiny Committee and then approved by the Council.</p> <p>Risk-based Internal Audit plans and reports approved by Audit and Scrutiny Committee.</p> |
| 2 | <p>Evaluating and monitoring risk management and internal control on a regular basis</p> | <p>Risk Management Annual Report to enable Audit and Scrutiny Committee to evaluate effectiveness of managing risk.</p> |
| 3 | <p>Ensuring effective counter fraud and anti-corruption arrangements are in place</p> | <p>Counter Fraud Policy and Strategy approved by the Council scrutinised by Audit and Scrutiny Committee.</p> <p>Improvement Plan includes compliance with CIPFA Code of Practice on Managing the Risk of Fraud.</p> |
| 4 | <p>Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor</p> | <p>Internal Audit assurance as part of preparation of the Council's Annual Governance Statement.</p> <p>Reports to Audit and Scrutiny Committee on provision of Internal Audit statutory service and conformance with Public Sector Internal Audit Standards (PSIAS).</p> |
| 5 | <p>Ensuring an Audit and Scrutiny Committee or equivalent group or function which is independent of the executive and accountable to the governing body:</p> <ul style="list-style-type: none"> provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment that its recommendations are listened to and acted upon | <p>The role of the Audit and Scrutiny Committee is to have high-level oversight of internal control, governance and risk management.</p> <p>Independence is maintained through membership of those not on the Executive Committee.</p> <p>Learning & development includes Induction, seminars and individual sessions.</p> <p>Annual self-evaluation of effectiveness of Audit and Scrutiny Committee against best practice guidance and Annual Report to Council thereon (best practice).</p> |

F4 Managing data

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 1 | Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data | <p>Information Governance Policy and Framework in place. The Council's Senior Information Risk Owner (SIRO) has overall responsibility for Information Management and is chair of the Information Governance Group (IGG). The IGG meets regularly and follows an agreed themed programme of work: Records Management; Information Access; Information Security; and Information Governance. The Information Manager leads the Information Team within Legal Services, reporting to Chief Legal Officer and SIRO.</p> <p>Information Management Procedures available on the Intranet include: Data Protection; Data Sharing; Freedom of Information; Information Management and Records Management (Retention and Disposal).</p> <p>Information Technology Policies and Procedures available on the Intranet include: Email & Internet Use Policy; Information Security Policy; Protective Marking Policy.</p> <p>Information Asset Registers (IARs) have been developed. The Records Management Plan has been submitted for agreement by Keeper of Records Scotland. Work is ongoing to implement remaining Improvement Actions and further work is planned to enable compliance with General Data Protection Regulations, due to come into force May 2018.</p> |
| 2 | Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies | <p>Procedures Protocol on sharing of information are published on the Intranet:</p> <ul style="list-style-type: none"> • General Protocol for Sharing Information • Privacy by Design Guidance and prompt list • Sharing Information Code of Practice <p>Register of Data Sharing agreements is in place (for PSN Compliance). Monitoring through an annual Audit by the Information Management Team.</p> |
| 3 | Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring | <p>Quality and Validation of data used in decision making and performance reporting is the responsibility of the service area, ultimately the Service Director.</p> <p>Internal Audit annual reviews on Performance Management cover validation of the KPI data submitted for Local Government Benchmarking Framework and for Corporate Priorities.</p> <p>The Executive Committee has responsibility for monitoring and challenge including the quality of data relating to decision making.</p> |

F5 Strong public financial management

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|--|
| 1 | Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance | <p>Medium Term Financial Strategy and plans for revenue (5-year) and capital (10-year) based on priorities, led by CMT, and approved by Council in February.</p> <p>Transformation Programme approved by Council in February same time as financial plans.</p> |
| 2 | Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls | <p>Revenue and Capital Budget Monitoring reports presented to Executive Committee on a quarterly basis.</p> <p>Financial Strategy Risk Register presented at Approval stage.</p> |

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

G1 Implementing good practice in transparency

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|--|
| 1 | Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate | Public Performance Reporting published on Council's website Committee reports are published on the modern.gov site for transparency to reflect the decision-making structure within the Council's Scheme of Administration, including the Health and Social Care IJB. |
| 2 | Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand | The Council produces and publishes annual accounts that set out the financial position and performance. Public Performance Reporting published on Council's website. Service-specific Annual Reports presented to relevant committee and made accessible to the public e.g. Chief Social Work Officer Annual Report, Education Standards and Quality Report. |

G2 Implementing good practices in reporting

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|---|
| 1 | Reporting at least annually on performance, value for money and the stewardship of its resources | The Statement of Accounts, incorporating a Management Commentary, provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development. External Audit Annual Report provides assurance and key recommended improvements. |
| 2 | Ensuring members and senior management own the results | Guidance on preparing Committee reports includes mandatory consultation in advance, and templates incorporate appropriate approvals. |
| 3 | Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement) | Annual Governance Statement is the outcome of self-evaluation of compliance which includes the Governance Framework, the Review of Framework, and Improvement Areas of Governance. |
| 4 | Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate | Annual Governance Statement covers assurances from SB Cares and other partners as reflected within the Group Accounts. |

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|--|---|
| 5 | Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations | The Management Commentary in Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development. |

G3 Assurance and effective accountability

| | Behaviours and actions that demonstrate good governance | Demonstration of good governance in practice |
|---|---|---|
| 1 | Ensuring that recommendations for corrective action made by external audit are acted upon | Reports outlining findings and recommendations (including follow-up progress) presented to the Audit and Scrutiny Committee. |
| 2 | Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon | Regular reports on Internal Audit performance and compliance presented to the Audit and Scrutiny Committee. Chief Officer Audit & Risk meets regularly with Chair of Audit and Scrutiny Committee. |
| 3 | Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations | Annual Scrutiny Plan by Audit Scotland presented to Audit and Scrutiny Committee. Reports by external scrutiny and inspection bodies outlining findings and recommendations presented to relevant committee. |
| 4 | Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement | The existing governance framework including alternative service delivery arrangements is outlined in the Annual Governance Statement. |
| 5 | Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met | The Strategic Assessment is the body of evidence which underpins the strategic vision for the Council and its partners. |

INTERNAL AUDIT WORK TO JUNE 2017

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

28 June 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and an outline the work of Scottish Local Authorities Chief Internal Auditors Group.**
- 1.2 The work Internal Audit has carried out in the period from 3 April to 9 June 2017 is detailed in this report. During this period a total of 2 final Internal Audit reports have been issued. There were 7 recommendations made relating to 2 of the reports which have been accepted by Management for implementation.
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.
- 1.5 Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is the professional networking group for Heads of Internal Audit, is shown in Appendix 2 to this report.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Notes the final assurance reports issued in the period from 3 April to 9 June 2017 associated with the delivery of the approved Internal Audit Annual Plan 2017/18;**
 - b) Notes the Internal Audit consultancy and other work undertaken in this period;**
 - c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work; and**
 - d) Acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in the SLACIAG national forum for Heads of Internal Audit.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2017/18 was approved by the Audit and Risk Committee on 28 March 2017. As previously stated, it should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities of the Council. Any amendments will be brought to this Committee for approval.
- 3.2 Internal Audit has carried out the following work in the period from 3 April to 9 June 2017, associated with the delivery of the approved Internal Audit Annual Plan 2017/18, to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.3 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

Internal Audit Reports

- 3.4 Internal Audit issued final assurance reports on the following subjects:
- Corporate Transformation Programme
 - Corporate and Social Work Complaints
- 3.5 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

| Level | Definition |
|-------------------------|---|
| Comprehensive assurance | Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required. |
| Substantial assurance | Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse. |
| Limited assurance | Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse. |
| No assurance | The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required. |

Internal Audit Consultancy and Other Work

- 3.6 Internal Audit staff have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- 3.6.1 Involvement in the independent validation of Payroll, Procurement and Finance data migrated to the new Business World ERP system which went live from April 2017.
- 3.6.2 Offering advice on internal controls and governance to Managers on request through engagement in a number forums as the Council continues to transform its services. For example, Information Governance Group, and Business World ERP Project Board.

- 3.6.3 Carrying out some contingency audit work on request by the Chief Executive where we have offered advice on improvements to complaints handling processes and practices associated with a social care client.
- 3.6.4 Reviewing outstanding and overdue audit recommendations to ensure their implementation.
- 3.6.5 Providing intelligence via data sharing requests from Police Scotland. Liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.
- 3.6.6 Carrying out performance appraisals for 2016/17 and objective setting and personal development plans for 2017/18 (PRDs) for each individual within the Audit and Risk team, to ensure their skills and knowledge are kept up-to-date and to support delivery of the Audit and Risk Service's Plans.
- 3.6.7 Revising the Council's Local Code of Corporate Governance to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the new CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) and the supporting guidance notes for Scottish authorities.

Recommendations

- 3.7 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

| |
|---|
| Priority 1: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement. |
| Priority 2: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue. |
| Priority 3: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management. |

The action plans in audit reports address only recommendations rated Priority 1, 2 or 3. Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.8 The table below summarises the number of Internal Audit recommendations made during 2017/18:

| | 2017/18 Number of Recs |
|---|------------------------|
| Priority 1 | 0 |
| Priority 2 | 4 |
| Priority 3 | 3 |
| Sub-total reported this period | 7 |
| Previously reported | 0 |
| Total | 7 |
| Recommendations agreed with action plan | 7 |
| Not agreed; risk accepted | 0 |
| Total | 7 |

4 SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2016

- 4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 4.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams and a copy of the report for 2016 is attached at Appendix 2 for information.
- 4.3 In particular, the Audit and Scrutiny Committee may wish to note that:
- 4.3.1 The Group considers learning and development needs and organises training for its members via the Training Sub-Group. Economies of scale make this a cost effective way of undertaking training;
- 4.3.2 Working groups are set up to consider matters of interest such as the development of a peer review approach for the periodic (at least 5 yearly) external quality assessment against the Public Sector Internal Audit Standards (PSIAS); and
- 4.3.3 Sub-groups are set up to deliver specific remits e.g. the Computer Audit Sub-Group (CASG) and the Counter Fraud Sub-Group (SLAIG).
- 4.4 During 2017 SLACIAG, as part of its role to share good practice across its members, will: continue to support its members to meet the mandatory requirements of the PSIAS, in particular through the roll out of its peer review External Quality Assessment arrangements to all participating Councils; hold its biennial conference in Dundee (June 2017); and host its joint meeting between Local Authority and Health Board Heads of Internal Audit to discuss Health & Social Care Integration risks, challenges, opportunities, and the role of Internal Audit.
- 4.5 Scottish Borders Council has a significant role in the work and success of the Group, as the Chief Officer Audit and Risk has been a member of the Group's Management Committee for a number of years (2014-2016 Chair, previously Vice Chair since July 2011, and Secretary of the Group for four years prior), a Senior Internal Auditor is a member of CASG, and the Corporate Fraud and Compliance Officer is a member of SLAIG.
- 4.6 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within internal audit in local government. It is important that the Audit and Scrutiny Committee acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in this national forum.

5 IMPLICATIONS

5.1 Financial

There are no costs attached to any of the recommendations in this report.

5.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."

- (b) Key components of the audit planning process include a clear understanding of the Council’s functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2017/18, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

5.5 Carbon Management

No direct carbon emissions impacts arise as a result of this report.

5.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

- 6.1 The Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 6.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 6.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

| Name | Designation and Contact Number |
|-------------|---|
| Jill Stacey | Chief Officer Audit and Risk Tel 01835 825036 |

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Risk Committee 28 March 2017

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|--|--|-----------------|---|---|--|
| | | 1 | 2 | 3 | |
| <p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate Transformation Programme</p> <p>No: 010/014</p> <p>Date issued: 20 June 2017</p> <p>Level of Assurance: Substantial</p> | <p>The purpose of this assurance audit was to review governance and accountability arrangements for the Corporate Transformation Programme including programme and project management, and processes for benefit (financial and other) identification, tracking and realisation.</p> <p>Our review focused on: Overall Governance arrangements of the Corporate Transformation Programme, including monitoring, reporting and scrutiny procedures involving Senior Officers and Elected Members; Specific programme and project governance arrangements by performing walk-through testing and gathering evidence of controls within a sample of programmes and projects (Digital Transformation – Digital Customer Access; Energy Efficiency; Property & Assets; and Workforce Transformation).</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • There was the opportunity for elected members to scrutinise the future plans and progress on delivery via reports of the Corporate Transformation Programme which are presented to the Council (plans and annual progress reports) and the Executive Committee (quarterly progress reports); • Corporate Management Team, who lead the Programme and act as its Board, dedicate one day a month to Corporate Transformation which is reviewed alongside Financial Planning and Monitoring; Efficiency Savings and Business Planning. • A Corporate Transformation Tracker, giving information on each project within the Programme, is prepared and updated on a monthly basis, and provided to the Corporate Management Team; • The functionality within the Sharepoint system enables all aspects of programme and project management; • There are links with the Council priorities set out in the Corporate Plan to the Transformation programme; and • Highlight reports enable comprehensive updates on progress of the programmes and projects. | 0 | 0 | 3 | <p>Management have accepted the report findings and agreed to implement the recommendations within reasonable timescales.</p> <p>It is anticipated that the recommendations will be implemented as part of the planned review and possible reshaping of the Corporate Transformation Programme, with 'critical friend' support provided by Internal Audit.</p> |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|--|---|-----------------|---|---|--------|
| | | 1 | 2 | 3 | |
| Subject: Corporate Transformation Programme (cont'd) | <p>The Corporate Transformation Programme is planned to deliver £7.966m of the £12.36m financial efficiency savings within the 2016/17 revenue financial plan for the Council. Transparency of reporting could be improved for medium term transformation programmes / projects to enable Corporate Management Team and Elected Members to fully scrutinise return on investment.</p> <p>We found some inconsistencies in the application of project governance methodology and documentation and with current methods for managing risk across the programme, in particular how identified risks are being mitigated.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • Corporate Transformation Monitoring Reports (including the Annual Report) should include cumulative investment and savings, covering several years, for individual programmes and projects, to enable benefits realisation monitoring and to provide return on investment (ROI) information. (P3) • Management should ensure that Corporate Transformation business cases identify the benefits to be realised (both financial and non-financial) including initial and ongoing investment and savings forecast, to facilitate prioritisation and allocation of support resources at the start, and to enable evaluation of progress towards achievement of the defined benefits throughout the life of the project / programme. (P3) • Management should set the standards for key documentation requirements to ensure that the information provided across all programmes and projects are consistent and in particular risks are consistently identified and managed throughout the Corporate Transformation Programme. (P3) | | | | |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|--|--|-----------------|---|---|--|
| | | 1 | 2 | 3 | |
| <p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate and Social Work Complaints</p> <p>No: 023/001</p> <p>Date issued: 19 June 2017</p> <p>Level of Assurance: Limited</p> | <p>The purpose of this audit was to review and assess arrangements in place for both Corporate and Social Work complaints, and to provide assurance on whether the complaints process is being applied consistently to enable successful outcomes, and the benefits associated with efficient resolution of complaints are being realised.</p> <p>Resolving complaints quickly and productively will help the Council improve relationships with its customers and enhance public perception of the authority as well as provide a better understanding of how to improve services by learning from complaints.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • Governance and accountability arrangements are set out in a Corporate Complaints Handling Procedure which has been developed through close working with the Scottish Public Services Ombudsman (SPSO) in order to produce a standard approach to handling complaints across the authority. The procedure for Social Work complaints is slightly different from the corporate complaints procedure as it follows specific legislation and guidance. • The right to complain is publicised and the process explained. Complaints to be made through a wide variety of methods and allows a representative of a person to complain on their behalf. • The Council has up to date complaints handling procedures in place which clearly define the roles and responsibilities of officers at all levels in the organisation. | 0 | 4 | 0 | <p>Management have accepted the report findings and agreed to implement the recommendations within reasonable timescales.</p> <p>Customer Services will lead the corporate implementation of the improvement actions though Service Directors and Managers will be required to ensure compliance in practice across the whole Council.</p> |

| Report | Summary of key findings and recommendations | Recommendations | | | Status |
|--|--|-----------------|---|---|--------|
| | | 1 | 2 | 3 | |
| Subject: Corporate and Social Work Complaints (cont'd) | <p>The procedures are, however, not consistently applied in practice. There are a number of weaknesses in procedure which should be addressed in order to improve compliance with the Complaints Handling procedures and improve the quality of service received by those using the complaints process. Existing practices to learn lessons from upheld complaints also merit further development.</p> <p>Internal Audit considers that the level of assurance we are able to give is limited. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • Training arrangements for staff new to complaints handling and for highlighting changes to procedure to existing staff should be revised to ensure coordinated and consistent delivery. (P2) • Processes for validating service quality control which is proportionate to the relatively low number of complaints should be put in place. (P2) • Reporting of complaints should be expanded to include analysis of the root cause of complaints and the service areas involved. Routine reporting for managers should be developed in order to manage ongoing complaints. (P2) • Lessons learned from upheld complaints should be consistently and logically recorded in CRM together with action taken in order to provide increased opportunities for learning from complaints and avoid similar complaints in the future. (P2) | | | | |

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ANNUAL REPORT FROM THE CHAIR – 2016

1. INTRODUCTION

- 1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of local authority internal audit, governance, and operations. In support of that vision the Group has the following objectives:
- To secure a quality and responsive service for members of the group ;
 - To develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
 - To strengthen links and build long term relationships across the internal audit community within the public service;
 - To provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice;
 - To consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price;
 - To uphold the groups key values including: Respect; Openness and Honesty; Adding Value; Professional Team working; Sharing Best Practice; Integrity; Continuous Improvement.
- 1.3 The purpose of this Annual Report to key stakeholders is to provide an update on the Group's activities and achievements over the course of 2016.

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2016

2.1 SLACIAG met four times during 2016:

- 18 March 2016 – hosted by Aberdeenshire Council;
- 17 June 2016 – hosted by Scottish Borders Council;
- 9 September 2016 – hosted by CIPFA Scotland; and
- 25 November 2016 – hosted by North Lanarkshire Council.

2.2 All of the meetings were very well attended, re-affirming the value of the Group to members through the variety of topics considered by the Group over the course of the year and the calibre of speakers who attended and presented. This is particularly pleasing at a time of such significant change across Local Government generally and for Internal Audit in particular. The Group strives to ensure involvement across the whole profession with an ever increasing emphasis on the involvement of members of Internal Audit teams as well as Heads of Internal Audit.

2.3 As usual, the Group held its Annual General Meeting in March 2016. At that meeting, new office bearers were appointed with Andrea McMahon (Renfrewshire Council) succeeding Jill Stacey (Scottish Borders Council) as Chair Paul Doak being appointed as Secretary and Kevin O'Kane, being appointed as Treasurer, following the resignations of Gordon O'Connor (Falkirk Council) and Kenneth Ribbons (West Lothian Council) who had served the Group for many years. The outgoing Treasurer provided an update on the Group's finances, which continue to show a healthy financial position. This allowed the subscription rates to be held at the current level for the following year and enabled very good value training opportunities to be provided. Eilidh Mackay (East Ayrshire Council) agreed to assume the role of Vice Chair during the year.

2.4 As well as allowing the Group to conduct its AGM business, the March meeting provided the opportunity to continue some of the themes from the previous year including corporate fraud and health and social care integration. Sharon Murphy provided an insight into the work Glasgow City Council were doing in relation to corporate counter fraud. There was group discussion in relation to

health and social care integration and the arrangements for working with Health Board Auditors around areas such as the Annual Governance Statement. David Hughes (Aberdeen City and Aberdeenshire Council's) delivered an informative presentation around his experience and challenges for shared Internal Audit Services.

- 2.5 Philip Barr, Depute Chief Executive, Scottish Borders Council presented to the Group on the importance of involving Internal Audit throughout any significant process of change at the June meeting. Ronnie Nicol and Katherine Sibbald from Audit Scotland provided an overview of the new approach to the audit of Best Value. An overview of the Community Empowerment (Scotland) Act 2015 was provided by Ian Turner from the Scottish Government on the national picture and Shona Smith (Scottish Borders) from a local perspective.
- 2.6 The September meeting was a joint meeting with the Heads of Internal Audit from NHS Boards, this extended Group meeting heard from Fiona Mitchell-Knight from Audit Scotland on the findings arising from their first round on annual audits of the Integration Joint Boards and Gordon Neill from Audit Scotland presented to the Group on their first national review of integrated health and social care. The Group followed up with a discussion on partnership working and potential conflicts of interest in relation to auditing the Integration Joint Boards.
- 2.7 Detective Inspector Ricky Hutton delivered an interesting presentation to the Group on the work of the Police Scotland Anti-Corruption Unit over the last 3 years as well as the future direction of the unit. SEEMIS Company Secretary, Roddy Shearer presented to the Group on the governance arrangements and future development plans for the organisation. This followed with a Group discussion on how individual councils could rely on assurances from SEEMIS auditors.
- 2.8 During the year the Group developed a Knowledge Hub site for the Group, to allow for sharing of documentation and a member's communication forum. Membership of the Knowledge Hub continues to grow and is open to Heads of Internal Audit and their teams.
- 2.9 In line with the Group's objective to develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government, the group participated in the Internal Audit Standards Advisory Board's consultation on changes to the Public Sector Internal Audit Standards.
- 2.10 Due to the variations between Scottish and English legislation in relation to counter fraud, it was recognised that there was an opportunity to develop an accredited counter fraud qualification specific to the Scottish legislative framework. Working with CIPFA's Head of Business Development the programme for the training was developed and is now available to practitioners with a role in counter fraud.
- 2.11 There are 26 councils currently participating in the SLACIAG peer review approach to External Quality Assessment (EQA) to meet the 2013 Public Sector Internal Audit Standards requirement that Internal Audit sections undergo periodic (at least 5 yearly) external assessment against the Standards. 5 reviews were completed during 2016/17 bringing the total reviews completed to 9. The Chair of SLACIAG presented an overview of the EQA framework to the CIPFA Scotland Executive.

3. COMPUTER AUDIT SUB-GROUP

- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques. CASG meets three times per annum and the meetings, which are hosted by Councils, continue to cater for computer audit knowledge from novice through to professional level and were attended by auditors from Local Authorities as well as from Strathclyde Partnership for Transport and Scottish Water.
- 3.2 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group. In the past year, presentation topics have included: SEEMIS security and management, Records Management, Payment Card Industry Data Security Standard (PCI-DSS), Business Continuity and Disaster Recovery, Social Media and Education Networks.

4. SCOTTISH LOCAL AUTHORITY INVESTIGATORS SUB-GROUP (SLAIG)

- 4.1 The main aim of SLAIG, which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss counter fraud practices and developments. This includes raising awareness of updates to legislation, new and current topics of interest, and developments in counter fraud activities. SLAIG meets four times per annum and quarterly meetings are held with the Crown Office and Procurator Fiscal Service (COPFS). An additional meeting was held with COPFS in November to specifically discuss the details of a proposed revision to prosecution policy.
- 4.2 The Group has worked closely with the DWP in relation to joint working with Local Authorities where there is a DWP benefit in payment; specific areas of interest have been in relation to council tax reduction scheme (CTRS) fraud and tenancy fraud. West Dunbartonshire Council participated in a joint working pilot on CTRS fraud and there has been interest from the DWP in developing a further pilot in relation to tenancy fraud.
- 4.3 The Group has been engaging with the Scottish Government and the Chartered Institute of Housing, Scottish Federation of Housing Associations and Housing Networks to seek statutory powers in Scotland in relation to tenancy fraud.
- 4.4 The Group has heard from speakers on topics of interest such as money laundering delivered by Police Scotland, procurement fraud work being undertaken by West Lothian Council and a presentation from the National Anti-Fraud Network (NAFN) on the intelligence available to investigators.

5. SUMMARY

- 5.1 In summary, SLACIAG has had another very successful year, and I believe that, individually and collectively, the Group will continue to be at the forefront of developments, is well positioned to meet the considerable challenges of the future, and that our voice will continue to be heard as experts in matters of risk management, governance and control. Group members, in their Authorities, will continue to adapt as necessary to support their Board and Executive Management Teams to maintain delivery of well governed services in the context of reducing resources and significant transformation.
- 5.2 Specific challenges ahead for members and for the Group will include: implementing External Quality Assessments and continuing to respond to strategic developments within the public sector, including Health and Social Care Integration. However, the groundwork has been laid through the development focus of our meetings and our upcoming conference which will place members in a strong position to meet those challenges going forward.
- 5.3 Finally, I would like to take this opportunity to thank the Committee and all Group members for their strong support and contributions during my first year as Chair, and wish the Group every success for the future.

Andrea McMahon

Andrea McMahon (Chief Auditor, Renfrewshire Council)
Chair of SLACIAG
24 March 2017

Previous Scrutiny Items

2001/02

Working Groups

Access and Use of European Funding (2001/02)
Assessment of Special Needs Education (2002/03)
Attendance Plus (2002/03)
Change in Demographics in Scottish Borders (2007/08)
Comments and Complaints Handling (2001/02)
Common Good Funds in the Borders (2007/08)
Community Access to School Facilities (2007/08)
Commuting and the Impact of Modern Working Practices (2010/11)
Consultation with Communities on Planning Applications (2001/02)
Current Policies Regarding Support to Business (2005/06)
Environmental Performance (2003/04)
External Funding (2002/03)
Following the Public Pound (2002/03)
Great Tapestry of Scotland: A Review of the Process in respect of Decision-Making (2015/16)
Hawick Streetscape (2003/04)
How the Council Consults and its Effectiveness (2005/06)
Launchpad Review (2001/02)
Launchpad Review Part II (2002/03)
Lottery Funding (2003/04)
Passenger Transport Internal Customers (2006/07)
Printing and Graphic Design (2002/03)
Provision of Industrial Units in Borders (2006/07)
Residential Care Homes for Older People (2002/03)
Review of Purchasing of IT Equipment and Software (2001/02)
Review of Renewable Energy (2008/09)
Review of Training and Apprenticeships (2003/04)
Scottish Borders Tourist Board (2003/04)
Social Work Action Plan (2003/04)
Sports Review (2003/04)
Somewhere to Go (2004/05)
Statutory and Regulatory Services (2006/07)
Training Opportunities in SBC and the Borders (2008/09)
Vetting Arrangements for Taxi Drivers (2002/03)
Vocational Training Opportunities (2009/10)
Welfare and Benefits Advice in the Borders (2005/06)

Briefings/Hearings

Absence Management and Business Continuity within SBC (2011/12)
Adults with Incapacity (2006/07)
Affordable Housing (2008/09)
Area Regeneration (2005/06)
Area Regeneration Update (2005/06)
Area Tourist Board Network Review (2002/03)
Artificial Sports Pitches (2016/17)
Asymmetric Week (2016/17)
Attainment Levels in Schools in Deprived Areas (2015/16)

Best Value Audit (2004/05)
Best Value Audit and Performance Monitoring (2005/06)
Budget Planning Process (2001/02)
Building Inspection Regime during construction (2014/15)
Bullying and its Effects on the Confidence of Young People (2004/05)
Childcare Strategy (2004/05)
Christmas Trees and Festive Lighting (2009/10)
Citizens Advice Bureaux (2003/04)
Citizenship Education (2005/06)
Commissioning Arrangements with the Voluntary and Third Sector (2016/17)
Common Good Funds (2007/08)
Communication of Planning Decisions (2005/06)
Community Benefit from Windfarms (2009/10)
Community Engagement Strategy (2008/09)
Community Planning (2005/06)
Community Planning: Assessment of Audit Scotland Report and Update on Developing and Implementing the Community Plan (2006/07)
Community Recycling Centres – Update on re-use/remarketing of goods (2016/17)
Community Safety Activity (2006/07)
Community Safety (2009/10)
Community Benefit from Windfarms (2009/10)
Corporate Environmental Action Plan (2006/07)
Council’s Arrangements for Coping with Severe Weather (2009/10)
Council Procurement and the local economy update (2010/11)
Council’s Use of Consultants (2004/05)
Criminal Justice (2009/10)
Curriculum for Excellence implementation progress (2009/10)
Customer First Update (2007/08)
Customer First update (2008/09)
Customer First Update (2009/10)
Customer Relations Management (2005/06)
Developer Contributions: The Impact of Exempting Existing Buildings from Liability (2009/10)
Development Planning and Building Standards Issues (2010/11)
Disclosure Checks (2006/07)
Drugs and Alcohol Strategy (2016/17)
Duty of Best Value (2003/04)
Duty of Best Value (2004/05)
Effect of Disclosure and Child Protection Legislation on Voluntary Sector (2004/05)
Elected Member Training (2008/09)
Enforcement of Planning Conditions and Building Regulations (2014/15)
Environmental Strategy (2005/06)
E-procurement (2007/08)
Equal Opportunity Employment (2006/07)
Equal Opportunities and Human Rights Compliance (2009/10)
Equalities Legislation in Relation to Grants to Local Festivals (2015/16)
European Funding (2004/05)
Faith Schools (2015/16)
Fit for Future: Single Status (2007/08)

Flood Appraisal Group (2004/05)
 Flood Prevention (2002/03)
 Flood Prevention (2008/09)
 Food Safety (2012/13)
 Following the Public Pound - Citizens Advice Bureaux (2005/06)
 Following the Public Pound – Federation of Village Halls (2005/06)
 Following the Public Pound – Sports Councils (2005/06)
 Funding available to Community Councils (2014/15)
 Glenview Young Persons Unit (2002/03)
 Good Ideas and How they are Taken Forward (2009/10)
 Grass Cutting update (2008/09)
 Healthy Living Initiatives (2003/04)
 Heart of Hawick (2008/09)
 Heart of Hawick (2009/10)
 Heart of Hawick update (2011/12) x 3
 Hungry for Success (2005/06)
 Hungry for Success update (2006/07)
 Hungry for Success Update (2007/08)
 Hungry for Success update (2008/09)
 Identifying Priorities for Investment in the School Estate (2008/09)
 Impact of the Community Safety Forum (2003/04)
 Impact of Third Party Use of the Local Authority's Road Network
 (2016/17)
 Implementation of Customer First/Customer Relationship Management
 (2006/07)
 Implementation of Licensing (Scotland) Act 2005 (2007/08)
 Implications of the Community Empowerment Act on the Council
 (2016/17)
 Internal Recharging (2011/12)
 Joint Learning Disability Service (2009/10)
 Licensing Policy and Practices (2006/07)
 Lifelong Care Contracts (2003/04)
 Mainstream Schools and Children with Complex Additional Support Needs
 (2015/16)
 Maintenance of Bridges in the Scottish Borders (2016/17)
 Maintenance of Roads (2015/16)
 Measures and Options to Stimulate Rural Housing in the Borders
 (2009/10)
 Monitoring of Leisure Trusts (2003/04)
 Monitoring of Leisure Trusts (2005/06)
 Monitoring of SBHA (2003/04)
 NHS Borders consultation on Integrated Care (2002/03)
 New Opportunities for Physical Education and Sports Programmes
 (2002/03)
 New Ways (2003/04)
 Non-Schooling and Home Schooling (2014/15)
 Office Accommodation needs of the Council (2003/04)
 Parks and Open Spaces: Grass Cutting (2007/08)
 Passenger Transport Review (2005/06)
 Passenger Transport Services (2007/08)
 Plain English presentation (2008/09)
 Plain English Implementation (2010/11)

Police, Fire & Rescue, and Safer Communities Board update (2016/17)
Preparations on implementation of Education (Additional Support for Learning)(Scotland) Bill (2003/04)
Preparation of Policy on Developer or Windfall Contributions (2003/04)
Preparing for Winter 2011/12 and Community Resilience (2011/12)
Private Water Supplies (2015/16)
Procurement (2012/13)
Procurement and the Impact on the Local Economy (2009/10)
Procurement – Control of Contractors Policy/Repairs & Maintenance Framework Agreement Procurement Policy (2014/15)
Property and Assets Review Programme (2007/08)
Property and Asset Review Programme (2008/09)
Protective Marking of Documents (2016/17)
Public Venue Hire Charges (2011/12)
Regeneration in the Borders (2009/10)
Religious Observance Policy (2015/16)
Re-trunking parts of A7 and Trunking of A72 (2015/16)
Review of Community Learning and Development (2004/05)
Review of Community Venue Hire Charges (2010/11)
Review of Community Venue Hire Charges (2010/11)
Review of Vehicle Replacement (2005/06)
Review of Welfare Benefits Advice in the Borders update (2008/09)
SBC, Registered Social Landlords and Letting Policy (2010/11)
School Catchment Areas (2006/07)
School Transport and Escorts (2015/16)
Scottish Borders Health and Social Care Partnership (2016/17)
Section 75 Agreement Process (2008/09)
Sewage and Waste Water Treatment in the Borders (2011/12)
Shared Services Diagnostic Project (2007/08)
Shared Services Diagnostic Project update (2008/09)
Small Schools Policy (2007/08)
Social Work Duty Hub (2016/17)
Special Educational Needs Assessment (2005/06)
Stimulating Affordable Rural Housing in the Borders update (2010/11)
Strategic Partnership Working within the Area of Social Work (2004/05)
Support Available to Community Councils from SBC (2014/15)
Support for Highly Able Learners in Schools (2015/16)
Support Services Review (2007/08)
Support Services Review (2008/09)
Tackling Poverty (2009/10)
Tackling Poverty and Financial Inclusion update (2010/11)
Technical Services Reviews (2004/05)
The Cheviot Project (2011/12)
Tourism Development in the Scottish Borders (2011/12)
Training and Apprenticeships (2006/07)
Transforming Services to Children and Young People (2007/08)
Transforming Children’s Services (2009/10)
Transforming Children’s Services update (2010/11)
Transforming Older People’s Services (2007/08)
Transport Interchange, Galashiels (2015/16)
Update on Review of Industrial Property (2010/11)
Update on Transforming Older Peoples Services (2008/09)

Update on Work of Childcare Partnership (2005/06)
Use of Enforcement Notices for Dangerous Buildings (2014/15)
Use of Funding provided Access to Public Buildings under the DDA Programme (2011/12)
Use of Small Schemes and Quality of Life Funding by Area For a (2014/15)
VisitScotland (2007/08)
Waste Management update (2009/10)
Waste Strategy (2005/06)
Waste Strategy (2007/08)
Waste Strategy (2008/09)
Waste Strategy update (2010/11)
Welfare Reform Act and its Impact (2012/13)
Winter Maintenance (2001/02)
Youth Activity in the Scottish Borders (2011/12)
Youth and Drugs and Alcohol (2011/12)

Call-ins

Capital Budget Adjustments: Corporate HQ Reception and Cognos Report Writing projects (2007/08)
Economic Development and Environmental Planning staffing (2001/02)
Hanging Baskets (2002/03)
Monitoring of the Revenue Budget (2004/05)
Passenger Transport budget (2009/10)
Pay Parking (2001/02)
Pay Parking (2003/04)
Peebles Library Proposals (2006/07)
Refuse Collection from Road Ends (2005/06)
Review of Common Good Funds (2008/09)

Notice of Concern

Christmas Trees and Festive Lighting (2009/10)
Pay Parking (2002/03)

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**Proposed Meeting Dates 2017/18
Audit and Scrutiny Committee**

| Date | Audit items | Scrutiny items |
|---------------------------|-------------|----------------|
| Thursday 17 August 2017 | No | Yes |
| Monday 25 September 2017 | Yes | No |
| Thursday 26 October 2017 | No | Yes |
| Monday 13 November 2017 | Yes | Yes |
| Thursday 30 November 2017 | No | Yes* |
| Monday 15 January 2018 | Yes | Yes |
| Thursday 15 February 2018 | No | Yes |
| Monday 19 March 2018 | Yes | No |
| Thursday 26 April 2018 | No | Yes |
| Monday 14 May 2018 | Yes | Yes |
| Thursday 31 May 2018 | No | Yes* |
| Tuesday 26 June 2018 | Yes | No |

* Meeting may be cancelled should there be no substantive business

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