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EXECUTIVE COMMITTEE
TUESDAY, 29 SEPTEMBER 2015

The following items of additional business will be considered at the MEETING of the EXECUTIVE COMMITTEE to be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS, TD6 0SA on TUESDAY, 29 SEPTEMBER 2015 at 10.00 am

J. J. WILKINSON,
Clerk to the Council,

22 September 2015

ADDITIONAL BUSINESS				
12	(a)	**Scottish Borders Council Annual Audit Report 2014/15** Consider the annual audit report from the Council's External Auditors, KPMG	(Pages 1 - 52)	30 mins
	(b)	**Scottish Borders Council Final Reports and Accounts 2014/15** Consider report by the Chief Financial Officer on Scottish Borders Council's audited Statement of Accounts and various Annual Reports and Financial Statements for 2014/15	(Pages 53 - 306)	
13	(a)	**Scottish Borders Council Pension Fund Annual Audit Report** Consider the annual audit report from the Council's External Auditors, KPMG	(Pages 307 - 328)	20 mins
	(b)	**Scottish Borders Council Pension Fund Annual Report and Accounts 2014/15** Consider report by Chief Financial Officer on audited Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2015 (copies attached)	(Pages 329 - 392)	

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 D. Parker (Chairman), S. Aitchison, S. Bell, C. Bhatia, J. Brown, M. J. Cook, V. M. Davidson, G. Edgar, J. G. Mitchell, D. Moffat, D. Paterson, F. Renton and R. Smith

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KPMG

cutting through complexity

Scottish Borders Council

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Agenda Item 12a

Annual audit report to the Members of

Scottish Borders Council and the Controller of Audit

Audit: Year ended 31 March 2015

DRAFT: 18 September 2015

DRAFT

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Scottish Borders Council ("the Council") and is made available to Audit Scotland and the Auditor General for Scotland (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out within our audit strategy.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Headlines

DRAFT

This annual audit report summarises our findings in relation to the audit of Scottish Borders Council for the year ended 31 March 2015. Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code").

This report also sets out those matters specified by ISA (UK and Ireland) 260: *Communication with those charged with governance* in relation to the financial statements for the year ended 31 March 2015.

We wish to record our appreciation of the continued co-operation and assistance extended to us by Council staff during the course of our work.

Area	Summary observations	Analysis
Strategic overview and use of resources		
Key issues	Management undertake regular analysis of the key areas of public reform, which should support achievement of strategic priorities in a changing environment; in common with all local authorities there are a number of service challenges emerging, with demand and resource pressures continuing against a backdrop of reform in public services. The Council's response to these challenges is reflected in its five year financial strategy.	Page 6
Financial position	The Council's revenue expenditure was £257.7 million, as shown in the table on page 11. This represents a £0.4 million (0.15%) under spend against the revised budget (2013-14: under spend of £0.5 million against revised budget). The outturn for 2014-15 is in accordance with the Council's financial strategy. This included delivery of efficiency savings of £8.1 million, with 80% of planned efficiency savings delivered on a permanent basis. The Council has reviewed the level of general reserves to ensure that the reserves held are proportionate to the risks that the Council faces.	Page 8
Financial statements and accounting		
Audit conclusions	Our approach reflected our assessment of financial statement level risks and consideration of audit focus areas. These have been concluded on satisfactorily. We have issued an unqualified audit opinion on the 2014-15 financial statements. The draft financial statements, management commentary, annual governance statement and remuneration report were received by the statutory date and were supported by high quality working papers.	Page 15
Significant risks and audit focus areas	The areas highlighted below are the specific audit focus areas identified within our audit strategy document: ■ fraud risk from management override of controls; ■ the Council's financial position; ■ accounting for provisions, specifically in relation to landfill; ■ the valuation of property plant and equipment (PPE); and ■ participation in the Scottish Borders Council Pension Fund. Audit work was completed to satisfy the requirements of ISA 330 *The auditor's responses to assessed risks*, including tests of key financial controls. In respect of each matter, we are content with management's judgements and accounting treatment.	Page 17

Headlines (continued)

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Financial statements and accounting		
Accounting policies	There have been no changes to accounting policies applied by the Council in 2014-15. No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements. The requirements of the *Code of practice on transport infrastructure assets* ("the transport code"), will apply from 2016-17.	Page 22
Subsidiaries and associates	The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) has required that full audited financial statements for the Council's charitable trusts and common good funds are prepared for the second year. A National Housing Trust (NHT) local authority variant model was set up to deliver the Council's affordable housing programme. Bridge Homes LLP, the Council's vehicle for delivering the affordable housing investment programme, was audited for the first time, having been incorporated in February 2014. We have issued unqualified audit opinions on all of these entities.	Page 25
Corporate governance		
Governance arrangements	Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making. A new committee structure came into effect on 1 January 2015 aimed at improving accountability and clarifying reporting lines.	Page 30
Systems of internal control	Our testing (combined with that of internal audit) of the design and operation of financial controls over significant risk points confirms that generally, controls relating to financial systems and procedures are designed appropriately and operating effectively. In our interim management report we noted opportunities for management to further strengthen the control environment in relation to the review of organisational policies, journals and bank reconciliations. These findings have been represented at appendix five. Management has made progress against these control weaknesses in the period since our interim management report was issued.	Page 31
Performance management arrangements		
Performance management	The Council has developed Best Value and performance management arrangements further during the year and demonstrates commitment to continuous improvement. Financial information is considered alongside performance data. The Council monitors statutory performance indicators throughout the year and completes the Local Government Benchmarking Framework exercise on an on-going basis.	Page 37

Scope and responsibilities

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Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit of the Council for 2014-15. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit and risk committee at the outset of our audit.

The context of our audit is one of an overall reduced level of risk, based on the shared risk assessment of the Council's arrangements.

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Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Scottish Borders Council under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit and risk committee at the outset of our audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

Accountable officer responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out Scottish Borders Council's responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit and risk committee, together with previous reports to the audit and risk committee throughout the year, discharges the requirements of ISA 260.

Strategic overview

Our perspective on key business issues and financial position

Key business issues

Public sector reform and financial pressures have caused challenges for local authorities in delivering services with reduced resources. 2015-16 is the third year of the Council's five year plan and has provided a proportionate response to these challenges. Balanced budgets have been achieved in each of the last two years.

Sector overview

Local authorities continue to face challenges as a result of public sector reform and the UK's continued financial pressures. Councils are faced with real term funding decreases, combined with increasing demand for services.

In common with other local authorities in Scotland, the Council froze council tax for 2015-16, although revenue is expected to increase as a result of an increasing number of homes. The Scottish Government's council tax reduction scheme came into force from 1 April 2013. Funding for the scheme remains static from 2014-15 onwards, however there is greater financial risk due to an increase in the number of properties in the Council boundaries as the funding is a fixed sum instead of being demand led.

The integration of health and social care presents additional challenges. Councils are aware of the need to deliver services efficiently and effectively, with fewer resources. These challenges are highlighted in Audit Scotland's report "*An overview of local government in Scotland 2015*".

We set out our views on the Council's progress in setting a financial strategy and with key public sector reforms over the following pages and provide commentary on its financial position from page 8.

Local area network / shared risk assessment

Local area networks ("LAN"), comprising representatives from scrutiny bodies perform an annual shared risk assessment and identify scrutiny activity. The 2014-17 assurance and improvement plan (AIP), noted continued development and areas of strong performance. The plan included 17 areas as 'no scrutiny required' and one area assessed as 'scrutiny required'. This was in relation to governance and accountability and was carried out as part of the final audit. Findings are detailed in the governance section on page 30.

2014-15 saw a change in the process of shared risk assessments ("SRA") and how the LANs work with local authorities. The SRA process is intended to support local authorities in performance improvement, and the 2015-16 SRA identified areas of scrutiny as:

- follow up of progress made by the Community Planning Partnership (CPP) (see page 39);
- targeted Best Value audit work to assess the impact of the council's restructuring and progress in delivering continuous improvement;
- progress with health and social care integration; and
- follow-up scrutiny of the council's homelessness service in relation to the discharge of its homelessness duty.

Council financial strategy and plan

As noted above, the Council is operating in a challenging economic environment, with funding reductions and increasing expenditure pressures. In response, the Council set a five year financial strategy from 2013-14. This strategy was developed so that the Council could assess the level of resources available ensuring that financial plans remain prudent and sustainable in the context of the external environment.

The Council corporate plan 2013-18 incorporates the priorities for the Council over the next five years. It recognises the inherent challenges arising from population growth, an ageing demographic, reductions in funding, upward pressure on staff costs and new legislative requirements.

Members receive quarterly key performance indicator updates and financial monitoring updates, showing underspends or overspends to budget, progress with efficiency savings and how the Council is progressing against achievement of the outcomes outlined within its single outcome agreement (SOA). These are presented clearly, utilising graphs and tables as appropriate, supporting high quality monitoring. This regular analysis undertaken by management should support achievement of strategic priorities in a changing environment.

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Changing delivery models

To ensure the Council is well placed to manage the changing service requirements and reducing funding, a number of change projects have been implemented and alternative methods of service delivery are being utilised.

The council has recently established a new ALEO, SBCares, to manage the majority of the Council's adult social care provision including care at home, residential care homes, day services and joint equipment store.

The company is a fully owned council company and the business case clearly sets out the rationale for the establishment of the company which is based on efficiencies in and security of service delivery, more efficient and flexible use of staffing as well as generating additional income.

Approximately 800 staff transferred to the ALEO on 1 April 2015 and a new management team is in place to deliver the business plan. Early indications are that SB Cares is on track to deliver the £0.5 million savings required by the business plan in year one.

Growing population and affordable housing

A changing population puts additional demand on infrastructure within the Council's boundaries. The need for affordable housing was increasing with new supply projected to decline. In response, the Council developed a three year affordable housing programme (extended from 2016 to 2019) which has the potential to deliver up to 200 new homes for mid-market rent in the Borders. A National Housing Trust (NHT) local authority variant model was used to deliver this and as at 31 March 2015, Bridge Homes LLP had purchased ten new mid-market homes and had tenants in place.

Welfare changes

As a result of the Welfare Reform Act 2012, a number of significant changes were implemented as at 1 April 2013, changing how councils deliver benefit services. Further reform will see the introduction of 'Universal Credits' and the integrated working age benefit which will replace existing arrangements. Universal Credits will be administered by the Department of Work and Pensions ('DWP').

The position at the Council is one of positive engagement. The Council has integrated its welfare reform project into the local community planning process.

The Council has no housing stock, but is proactively collaborating with local registered social landlords, Citizen's Advice Bureau and the Department of Work and Pensions to help mitigate the adverse impacts of the welfare reform agenda.

Financial position

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The financial statements reflect a surplus on the provision of services of £0.2 million compared to a deficit of £6.4 million in 2013-14.

At 31 March 2015 the Council has net assets of £18.3 million, compared to net liabilities of £26.6 million at 31 March 2014.

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Comprehensive Income and Expenditure Statement ("CIES")

In 2014-15 the Council reported a surplus on the provision of services of £0.2 million (2013-14: deficit of £6.4 million). This audited outturn position was an underspend of £0.4 million against the final revised departmental expenditure budget, which is updated throughout the year as part of the financial monitoring process.

The following table is a summarised version of the CIES.

Comprehensive income and expenditure statement	2014-15 £'000	2013-14 £'000	Variance £'000
Gross income from services	(69,370)	(68,730)	(640)
Taxation and non specific grant income	(273,555)	(264,930)	(8,625)
(Gains)/loss on disposal of non current assets	288	(785)	1,073
Roads Trading operation surplus	(165)	(290)	125
Interest receivable	(48)	(159)	111
Total income	(342,850)	(334,894)	(7,956)
Cost of services	321,892	321,033	859
Interest payable	11,806	11,908	(102)
Interest expense on pension defined benefit obligations	8,973	8,389	584
Total expenditure	342,671	341,330	1,341
(Surplus) / deficit on the provision of services	**(179)**	**6,436**	**(6,615)**
(Surplus) / deficit on revaluation of non current assets	96	(5,357)	5,453
Actuarial gains on pension assets and liabilities	(44,848)	(5,335)	(39,513)
Any other (gains) or losses	7	(2)	9
Total comprehensive income and expenditure	**(44,924)**	**(4,258)**	**(40,666)**

Source: KPMG analysis of Scottish Borders Council's annual accounts 2014-15.

Balance sheet

As at 31 March 2015, the Council was in a net assets position of £18.3 million (2014: net liabilities of £26.6 million). The majority of the £44.9 million movement is due to:

- A significant reduction of £32.3 million in the defined benefit pension obligation, driven by growth in the value of the Fund's investment assets relative to the present value of the future pension obligations. The defined benefit pension obligations now amount to £166.1 million (2014: £198.4 million);
- £9.6 million increase in long term assets due to additions (£28.8 million) and revaluations (£10.8 million), offset by impairments (£8.6 million) and depreciation (£19.9 million); and
- £7.2 million increase in current assets of which £6.1 million relates to debtors and £1.3 million relates to cash and cash equivalents, offset by other small movements.

These movements are offset by:

- £4.1 million increase in long term liabilities, comprising a provision for closure and long term monitoring and aftercare of a landfill site (£3.8 million) and an increase in capital receipts in advance (£1.8 million), offset by a £1.5 million decrease in deferred liabilities.

The Council had useable reserves of £27.9 million as at 31 March 2015, of which £19 million relates to general fund reserves.

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Use of reserves

Based on the Audit Scotland survey of 32 local authorities' draft financial statements for 2014-15, the Council is placed in the lower quartile in terms of total useable reserves carried forward as a proportion of net revenue spend. We noted however that the Council keeps the level of reserves under regular review. The review is based upon an assessment of the corporate risk register, the application of financial amounts to each risk, overlaid by the likelihood of the risk occurring.

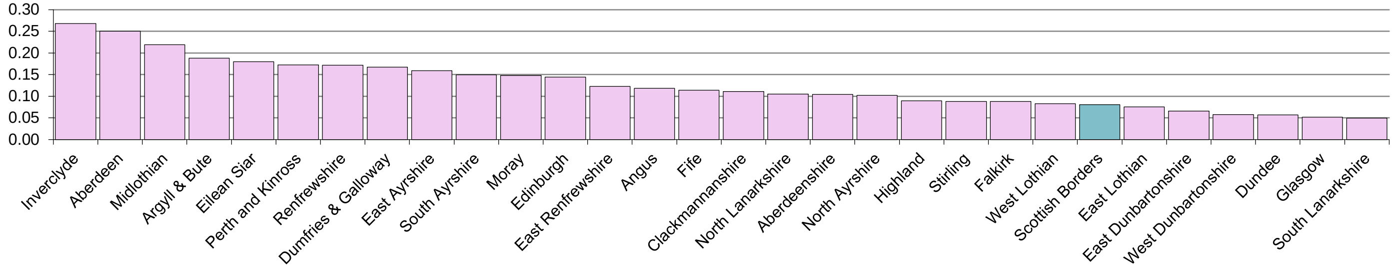
As at 31 March 2015, the Council had usable reserves of £27.9 million. These consisted of the general fund (£19 million), the capital fund (£7.6 million) and the insurance fund (£1.3 million).

The Corporate Financial Risk Register was considered by the Council in February 2015 and at this date the accumulated financial risk in the Risk Register was assessed to be £10.3 million. The General Fund useable reserve (non-earmarked) balance at 31 March 2015, at £7.2 million, is sufficient to cover 69.5% of risks identified at that time.

Management consider this level of cover appropriate because the risk of all risks crystallising at the same point of time is sufficiently remote. The recommended balance to be maintained on the general fund reserve will continue to be monitored through the Corporate Financial Risk Register on an annual basis.

We consider that while this methodology requires the application of professional judgement it does provide a clear link between the risks of the organisation and the financial position.

2014-15 carried forward usable revenue reserves as a proportion of revenue – 32 Scottish local authorities



Source: Audit Scotland analysis

Please note that it was necessary to omit Orkney and Shetland as their levels of reserves are much higher than other councils and it would distort the scale used.

Financial position (continued)

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At £31.4 million, capital expenditure in the year was £3.4 million below budget and reflects £2.3 million of project re-profiling.

Major capital projects in 2014-15 included £8.9 million on flood protection schemes and £3.8 million on Galashiels Transport Interchange, in preparation for the Borders Railway.

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Borrowing

The Council's capital expenditure is largely funded through borrowing. The capital expenditure programme gives rise to greater borrowings and management incorporates the debt service costs into budgets. In Audit Scotland's 2014-15 benchmarking, the Council is in the lowest third of local authorities in terms of level of net external debt when taken as a proportion of revenue expenditure. We recognise that this benchmarking does not differentiate for demographic differences or distinguish between councils which have externalised their housing and those that have not.

The Council's only additional long term external borrowing during the year was an interest free loan of £0.2 million linked to the energy efficient lighting programme. The Council's outstanding external debt as at 31 March 2015 was £172.1 million, with the average rate of interest paid being 6.5%.

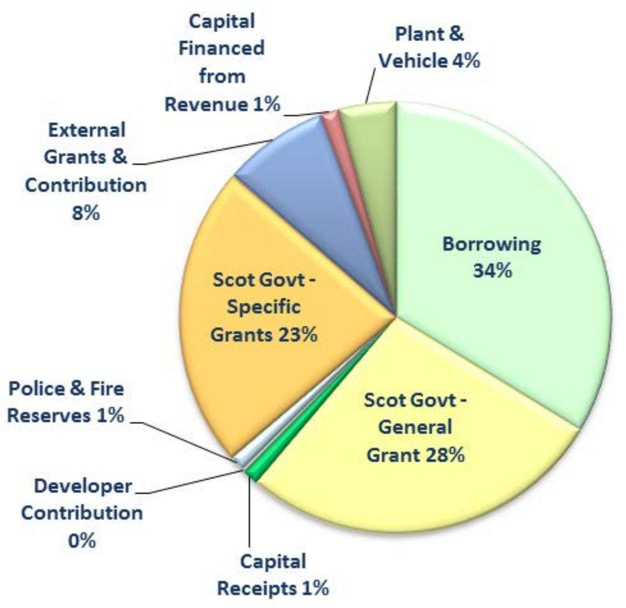
Capital programme

Total capital expenditure in 2014-15 was £31.4 million, compared to a budget of £34.8 million and expenditure of £27.6 million in 2013-14. The cumulative level of projects re-profiled into future years in 2014-15 was £1.1 million higher in comparison to the previous year.

A £3.4 million under spend against budget can be further broken down into (i) project re-profiling of £2.3 million and (ii) project under spend of £1.1 million. The re-profiling and under spends related to a number of capital projects, with the largest being Galashiels flood prevention. Management should continue to explore reasons for re-profiling in capital projects and any implications for capital budgeting to continue to reduce the amount of re-profiling.

In order to finance the recognition of the landfill liabilities the capital financing borrowing need increased by £2.9 million, in addition to £1.2 million in 2013-14 (total provision £4.0 million). In addition to the capital expenditure on the Council's assets, £1.0 million of funding was provided by way of loans to Bridge Homes LLP for new affordable housing through the National Housing Trust initiative.

The capital programme was funded mainly from a mixture of capital grants, borrowing and contributions from earmarked reserves as shown in the table below.



Source: Financial statements

Financial strategy

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The revenue budget for 2015-16 is £254.6 million and anticipates a breakeven position which requires a planned draw down of £0.5 million from the Council's reserves.

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Revenue budget

The Council's revenue budget of £254.6 million for 2015-16 was agreed in February 2015. As in the prior year, public budget consultation exercise on the Revenue Financial Plan was undertaken, with a Budget Simulator made available to members of the public on the Council website to give the opportunity for these views to be captured. This interactive Simulator allows residents and other stakeholders to provide feedback on how they would like the Council's revenue spending prioritised. The table shows the budgeted amounts for 2015-16 and the actual amounts from 2014-15.

	Revenue budget	Actuals
	2015-16 £000	**2014-15 £000**
Chief executive's department	27,291	28,805
People	167,336	163,650
Place	36,145	35,808
Loan charges and other	23,799	29,444
Expenditure	**254,571**	**257,707**
Council Tax income	(51,602)	(51,699)
General Revenue Support Grant	(168,472)	(175,624)
Other grants and reserve transfers	(34,497)	(30,786)
Income	**(254,571)**	**(258,109)**
(Under) / over spend	**-**	**(402)**

Source: Financial Plan 2014/15 – 2018/19

At 31 March 2015, the Council has performed ahead of budget and management confirmed that the Council remains on track with its financial strategy, however, continued monitoring will be required to ensure savings are achieved and there is no adverse impact on service delivery. Management monitors the budget throughout the year. As identified in previous years, the majority of underspend is presented in the final quarter of the financial year as greater certainty emerges in relation financial performance against budget in relation to Council services.

The Council has recognised that its current service model needs to change in order to achieve significant savings, meet demand and ensure that the quality of services is maintained. There is a published cumulative funding gap between income and expenditure of £27.1 million over the next five years as identified in the corporate plan.

The Council's response to this is detailed on the following page.

Financial strategy (continued)

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The Council's five year financial strategy assumes that council tax rates will remain frozen throughout this period and that service cost pressures will be met from service transformation projects and efficiency savings.

Efficiency savings of £8.1 million were delivered during 2014-15 in order to balance the cost of delivering services with available resources.

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Business transformation and efficiency savings

A service transformation programme has been introduced to help deliver the Council's priorities, meet financial challenges, close the financial gap detailed on the previous page and maximise efficiency. The delivery of ongoing savings associated with business efficiencies and transformation projects remains a challenge to the Council and will require to be a significant focus of management attention in future. There is increased uncertainty in funding levels due to delays in the Scottish spending review being concluded later in 2015-16.

The Council achieved efficiency savings of £8.1 million in 2014-15 (£6.3 million in 2013-14). Of this amount, 80% was fully achieved by departments in line with the original plan on a permanent basis, with 20% delivered via alternative corporate savings and additional income. Only 1% of these alternative measures are recurring and therefore the Council faces the challenge of making the remaining 19% of savings on a permanent basis. This is reported to elected members on a quarterly basis as part of the revenue monitoring process.

The comparative achievement on a permanent basis in line with the plan in 2013-14 was 70%, demonstrating an improvement in the Council's performance.

During 2014-15 the Council's Corporate Management Team redeveloped the Transformation Programme to support the delivery of the Council's Financial Strategy 2015-20. This covers four areas:

- making best use of our people;
- working with our partners;
- looking after the Borders; and
- business process transformation.

It also includes alternative methods of service delivery, such as the establishment of a Cultural Trust and the launch of SBCares to deliver many of the frontline services previously provided directly by the Council.

This programme has been split into a detailed operational focus for the first three years with savings clearly identified, then an indicative strategic plan for years four and five.

Summary of business transformation

- The Council has a multi faceted transformation programme, and key elements include Children and Young People's transformation, a Borders Railway programme, energy efficiency, an IT programme and workforce transformations.
- Alternative service delivery methods are being implemented, such as SBCares and a cultural trust.
- A five year savings plan is in place. Specific programmes are planned for years 1 – 3, with years 4 and 5 having departmental targets identified which are refined over time.

Financial strategy (continued)

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The Council has set a 10 year capital plan. In 2015-16 the Council plans to spend £48.3 million on a range of capital projects and a further £10.1 million on business process transformation projects.

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Capital plan

The Council has formulated a ten year capital plan which anticipated £352.1 million investment in the period to 2024-25. This plan has been split into a three year operational plan and an indicative strategic plan for the remaining seven years.

The strategic plan is intended to provide an indication of the level of resources and the type of demands on the capital financial plan. It is acknowledged that this will be subject to continuous refinement and will be subject to amendment reflecting the priorities of the Council.

Total planned capital expenditure in 2015-16 is £58.4 million and is to be funded from the sources shown in the table.

Capital plan funding source	£000
Specific Scottish Government capital grant	26,192
General Scottish Government capital grant	15,207
Borrowing	10,205
Other grants and contributions	2,146
Plant and vehicle fund	2,000
Capital receipts	1,699
Capital fund/capital receipts	830
Developer contributions	150
Total capital funding 2015-16	**58,429**

Source: Administration Capital Financial Plan 2015-16- 2024-25

The most significant (by value) capital projects in the operational plan for 2015-16 are shown in the following table. These represent the cost anticipated to be incurred in 2015-16, with projects such as the Selkirk flood protection scheme (£30 million) and Kelso High School (£21 million) being multi year projects.

Project	£000
Selkirk flood protection	10,261
General roads and bridges block	3,710
Energy efficient street lighting	1,000
Kelso High School	14,250
Duns Primary School and locality support centre	4,485
Early learning and childcare block	1,656
Complex needs – central education base	1,180
Peebles 3G synthetic pitch	1,095
Next generation broadband (BDUK)	4,200

Source: Administration Capital Financial Plan 2015-16- 2024-25

A large capital project to provide the permanent home for the Great Tapestry of Scotland at Tweedbank adjacent to the rail-head is planned to begin in 2015-16, with the majority of the £6 million indicative budget falling in 2016-17. This location was approved by the Tapestry trustees and external funding of £2.5 million has been secured.

The capital plan for 2015-16 has increased significantly compared to that delivered in 2014-15. We note that a new capital projects director was appointed in 2014-15 who has brought a fresh approach to the management of the capital plan. The team is considered to be sufficiently well resourced to ensure delivery of this larger plan. As at 30 June 2015, 9.6% of the plan (£5.63 million) had been delivered.

Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

Audit conclusions

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We anticipate issuing an unqualified audit opinion on the financial statements.

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Audit conclusions

Our audit work is complete. Following approval of the financial statements by the Council we intend to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2015, and of the Council's surplus for the year then ended. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all key risks and audit focus areas;
- liaised with internal audit and reviewed their reports to ensure all key risk areas having a potential financial statements impact have been considered;
- reviewed assumptions and judgements made by management and considered these for appropriateness;
- considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements; and
- attended the audit and risk committee to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

We have also continued to work with management to identify areas where the content of the financial statements could be enhanced to make the information more understandable and relevant to the reader whilst still satisfying the relevant disclosure requirements. Management have been proactive in this task.

Materiality

Planning materiality was provided in the audit strategy and plan for 2014-15 dated 9 January 2015 and discussed with the Council's audit and risk committee on 19 January 2015. There were no changes made to materiality for the final audit.

Materiality was set at £6.4 million which is approximately 2% of total expenditure in 2014-15. We designed our procedures to detect errors at a lower level of precision of £4.8 million. We report identified errors greater than £250,000 to the audit and risk committee.

Financial statements preparation

DRAFT

Council management has continued to develop arrangements for the compilation of draft financial statements and associated reports.

The financial statements, were made available on a timely basis and were accompanied by high quality working papers

New regulations applied to reporting arrangements for 2014-15.

Page 17

Financial statements preparation
■ The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014, replacing regulations which had applied since 1985. The regulations contain provisions for the unaudited annual financial statements as submitted to the auditor to be considered by the audit and risk committee no later than 31 August, and the audited financial statements to be presented to the audit and risk committee for consideration and approval prior to auditor signature before 30 September. ■ High quality working papers and full draft financial statements were provided on the statutory deadline of 30 June 2015. This included the explanatory foreword, management commentary, remuneration report and governance statement. The latter had already been considered, along with supporting evidence, and approved by the Council's audit and risk committee. The management commentary was in line with guidance, contained a readily understandable overview of the Council and was presented clearly, with good use of tables and graphs. ■ In advance of our audit fieldwork, we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. The standard of documentation was very good. ■ There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content, as reported in appendix one.

Significant risks and audit focus areas

DRAFT

The significant areas of risk identified in our audit strategy were in respect of:

- **management override of controls; and**
- **the Council's financial position;**

and other focus areas of:

- **accounting for provisions in relation to landfill sites;**
- **valuation of property, plant and equipment; and**
- **participation in the Scottish Borders Council Pension Fund.**

A new audit focus area was identified during our final audit work in respect of the Borders Railway financing commitment.

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We summarise below the risks of material misstatement as reported within the audit strategy. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the audit and risk committee may better understand the process by which we arrived at our audit opinion.

We have no changes to the risk or our approach to addressing the assumed risks of fraud in management override of controls and risks of fraud in revenue recognition. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

Significant risk	Our response	Audit findings
Financial position As highlighted earlier in our reporting, the Council is operating in a challenging economic environment, with funding reductions and increasing expenditure pressures. The Council has underspent against budget in total each year since 2012-13. In 2014-15 the Council recorded an underspend of £0.4 million against the final revised budget (2013-14: underspend of £0.5 million).	We have updated our understanding of the Council's financial position and year end outturn position through review of quarterly reports and other management information. We have commented on this on pages 8 to 11. We have performed controls testing over the budgeting process including the monitoring of budgets throughout the year. We have performed substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget and investigating significant variances.	We found that management are adequately monitoring their financial position through regular internal reporting. This is communicated to members on a regular basis. Management have applied the going concern assumption in preparing the financial statements. We have considered this assumption on page 23 and concluded that this is appropriate.

Significant risks and audit focus areas (continued)

DRAFT

Focus area	Our response	Audit findings
Accounting for provisions, specifically in relation to landfill In September 2014, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued further guidance on how local authorities should be accounting for asset decommissioning obligations in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard, the future costs (including decommissioning, restoration and ongoing monitoring) should be recognised when the asset is brought into use and an associated provision created on the balance sheet which future costs would be charged against.	Under IAS 37 a provision should be recognised when: ▪ an entity has a present obligation as a result of a past event; ▪ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and ▪ a reliable estimate can be made of the amount of the obligation. Our year end audit procedures included gaining an understanding of any actions the Council had taken and evaluating the Council's approach against the guidance. Management has considered the future capital costs and revenues associated with the decommissioning of open cells at its Easter Langlee landfill site, and a provision was recognised on the balance sheet at 31 March 2014 for relevant capital costs. In addition, a further provision of £2.855 million was made as at 31 March 2015 for associated monitoring and aftercare cost. This included £0.6 million from future gas revenues to offset associated monitoring and aftercare cost, bringing the total provision to £4.02 million. The Council received appropriate advice from internal and external specialists and we have challenged the assumptions used.	We found that management had applied the LASAAC guidance and applied its principles. We noted that certain of the assumptions used in the calculation of the provision, principally those relating to anticipated income during the period of monitoring and aftercare and the discount rate used, to be out of line with our expectations. These differences offset however and overall we consider the level of provision held to be appropriate.

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Significant risks and audit focus areas (continued)

DRAFT

Focus area	Our response	Audit findings
Valuation of property, plant and equipment In order to comply with the requirements of the Code, Council assets are subject to rolling valuations. In 2014-15, this was applied to surplus assets and Common Good and Trust properties. In addition, formal revaluations are undertaken for major PPE assets when they are brought into use, even when this is outwith the existing revaluation cycle. Valuations are undertaken by the Council's estates manager.	Our audit work consisted of: ■ engaging KPMG valuation specialists to challenge the assumptions used by the valuer; ■ confirming the accounting treatment of the valuations by agreeing capital accounting journals; and ■ agreeing the values posted in the financial statements to those provided by the internal valuer.	From the work of our valuation specialists, which included direct contact and challenge of the valuer, we consider that the revaluation is materially appropriate. We also consider that: ■ the methodology and approach taken by the Council's estates manager is appropriate and in line with KPMG expectations; ■ the Council's estates manager was appropriately professionally qualified and had sufficient experience and expertise to provide the information for use by the Council; and ■ the valuation is appropriately recognised and disclosed in the annual accounts.

Significant risks and audit focus areas (continued)

DRAFT

Focus area	Our response	Audit findings
Participation in the Scottish Borders Council Pension Fund The Council accounts for its participation in the Scottish Borders Pension Fund in accordance with IAS 19 *Retirement benefits*, using a valuation report prepared by actuarial consultants. The Council's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The determination of the retirement benefit obligation is inherently judgemental and there is a financial statement risk as a result.	Our audit work consisted of: ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the result of which are at Appendix three; ■ testing the scheme assets and rolled-forward liabilities; ■ testing the level of contributions used by the actuary to those actually paid during the year; ■ testing the membership data used by the actuary to data from the Council; and ■ agreeing actuarial reports to financial statement disclosures.	We are satisfied that the retirement benefit obligation: ■ is correctly stated in the balance sheet as at 31 March 2015; ■ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ■ assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range. We set out further information in respect of the defined benefit obligation at Appendix three. The defined benefit obligation decreased by £32.3 million compared to 31 March 2014, driven by growth in the value of the Fund's investment assets relative to the present value of the future pension obligations.

Page 21

Significant risks and audit focus areas (continued)

DRAFT

Focus area	Our response	Audit findings
Borders Railway financing commitment This area was highlighted by management following the presentation of our Audit Strategy. It is included as an audit focus area. The Council, as part of a wider agreement, has an obligation over the next 30 years to collect contributions from developers which it must pay to Scottish Ministers, up to a maximum amount of £8.748 million (at 2013 prices). With the running of the first passenger train on the Borders Railway in early September the first payment fell due.	Our audit work consisted of: ■ Reviewing the agreement between the Council and The Scottish Ministers; ■ Liaising with the auditors of Midlothian Council and City of Edinburgh Council to consider the treatment and ensure consistency of approach; ■ Considering the accounting treatment adopted by the Council; and ■ Review the related disclosures presented with the annual accounts.	We note that the Council has considered whether a provision should be made now that it is obliged to begin making payments to the Scottish Ministers. To assist in this a model has been prepared which demonstrates that under a number of probable different scenarios there will be no outflow of economic benefit and as such no provision is required. We have reviewed and challenged the model and underlying assumptions and consider them to be appropriate. We concur with the view that no provision is required.

Accounting policies

DRAFT

The Council prepares annual accounts in accordance with the 2014-15 Code. There have been no changes to accounting policies in the year, however the requirements of the transport code will represent a change in accounting policy from 2016-17.

Page 23

Accounting framework and application of accounting policies		
Area	**Summary observations**	**Audit findings**
Accounting policies	There have been no changes to adopted accounting policies in the year. Critical accounting judgements continue to relate to the valuation of property, plant and equipment as well as the valuation the present value of defined benefit obligations under IAS 19 (as calculated by the Council's actuary, Hymans Robertson) using agreed financial assumptions. It is expected that the 2016-17 Code will adopt requirements of the *Code of practice on transport infrastructure assets* ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. This will represent a change in accounting policy from 1 April 2016 and require full retrospective restatement for the Council's 2015-16 balance sheet. Local authorities are advised to develop a project plan to during 2014-15 to help achieve successful implementation. We considered the Council's plan for the requirements of the transport code and discussed this with Environment & Infrastructure staff members (Roads Assets department) and finance staff. We found that discussions have been taking place and the Roads Assets department plans to collect further survey information. However, a formal project plan has not been formed in line with CIPFA's indicative timeline published in July 2014. This information is already captured in the whole of government accounts ("WGA") submission. However this was not prepared in time for the initial submission.	We are satisfied that the accounting policies and estimates adopted remain appropriate to the Council. We have not identified any indications of management bias. In respect of readiness for the 2016-17 code, whilst the Council is in line with other local authorities in its preparedness, a formal project plan has not been formed and the WGA submission for 2014-15 is yet to be provided. The transport infrastructure asset valuation is being completed for WGA, however staff acknowledge this does not yet represent a complete listing. Recommendation one
Private Finance Initiative (PFI)	In 2006-07, the Council entered into a PFI agreement for the provision of three schools completed in 2009-10 and 2010-11. Due to materiality of PFI, we consider this area as part of our annual audit, refresh our understanding and ensure the Council's approach remains appropriate. The Council employed PricewaterhouseCoopers LLP (PwC) to provide a model to apportion the unitary charge over the life of the asset and produce the required financial disclosures. We have evaluated the use of PwC as an external expert and confirmed that there are no concerns with the independence or objectivity of PwC. This model is used by a number of public sector bodies to generate the required PPP accounting entries.	We conclude that the use of the PwC model remains appropriate.

Accounting policies (continued)

DRAFT

Accounting framework and application of accounting policies		
Area	**Summary observations**	**Audit findings**
Financial reporting framework	Scottish Borders Council prepares annual accounts in accordance with the Code of Practice of Local Authority Accounting in the United Kingdom ("the 2014-15 Code") which is based upon International Financial Reporting Standards ("IFRS"). The 2014-15 Code has a number of amendments from the 2013-14 version. The amendments include: ■ adoption of the new group accounting standards IFRS 10, IFRS 11, IFRS 12 and IAS 28; ■ amendments in respect of the restated opening balance sheet; and ■ changes to the requirements for accounting for combinations of bodies and transfer of functions. We have considered the adoption of the new group accounting standards on page 25. We do not consider these changes to have a material impact on the Council's annual accounts. There was no requirement for a restated opening balance sheet and no combinations or transfer of funds.	We are satisfied that the accounting policies adopted remain appropriate to the Council and have been correctly applied.
Going concern	Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The balance sheet shows that at 31 March 2015 the Council has net assets of £18.3 million compared to a net liability of £26.6m in 2013-14. This includes a pension fund liability of £166.1 million which will only crystallise over the long term. Given the general nature of the funding arrangements of the Council, we are satisfied that it is appropriate for the financial statements to be prepared on the basis adopted. The Council recognised a surplus in the year, providing further comfort over the Council's financial position. Over the past few years there has been a reduction in the overall cost base and further efficiency savings are incorporated in budgets.	We concur with management's view that the going concern assumption remains appropriate for the reasons noted.

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Management reporting in financial statements

DRAFT

Area	Summary observations	Audit findings
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 requires the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. Regulation 8(2) of the 2014 regulations introduces a requirement from 2014-15 for the annual accounts to include a management commentary. Despite this requirement notification being issued relatively late in the accounts preparation process, the management commentary was included within the unaudited annual accounts received on 30 June 2015. We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and are content with the proposed report. We provided management with some relatively minor suggestions relating to how the management commentary could be enhanced and where additional information disclosures should be made. Overall the management commentary was of a high standard. Key areas were in line with guidance, contained a readily understandable overview of the Council and was presented clearly, with good use of tables and graphs. The management commentary also contained strong links to service data.	We are required to consider the management commentary and provide our opinion on the consistency of it with the annual accounts. We are satisfied that the information contained within the management commentary is consistent with the annual accounts.
Remuneration report	The remuneration report was included within the draft annual accounts and supporting reports and working papers were provided. We satisfactorily tested exit packages and other disclosures in the remuneration report to supporting documentation. There were no exit packages relating to higher paid or senior Council staff. We also ensured that it complied with the Local Authority Accounts (Scotland) Regulations 2014.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts.

Subsidiaries and associates

DRAFT

Separate statutory audits in respect of the following subsidiaries have been carried out:

- **Bridge Homes LLP;**
- **Scottish Borders Council Common Good Funds;**
- **Scottish Borders Council Charitable Trusts;**
- **SBC Educational Trust;**
- **SBC Welfare Trust;**
- **SBC Community Enhancement Trust;**
- **Thomas Howden Wildlife Award Fund; and**
- **Ormiston Trust for Institute.**

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Requirements	Summary observations	Audit findings
Statutory audit required for Bridge Homes LLP	A National Housing Trust (NHT) local authority variant model was set up to deliver the Council's affordable housing programme. The principal activity of Bridge Homes during the period was investment in mid-market residential property for domestic rental to meet an identified social need within the Scottish Borders. Draft financial statements were received for audit by the statutory deadline. These were of good quality with only two minor areas for comment: ▪ the accounting period is an extended one based on date of incorporation. This has been corrected by management; and ▪ the members' valuation disclosure and the accounting policy in terms of investment properties are both required for this LLP. These have been incorporated in the final version of the financial statements. We agreed the purchase of homes to supporting documentation with no issues noted.	We have concluded our work in relation to Bridge Homes LLP and issued an unqualified opinion.

Subsidiaries and associates (continued)

DRAFT

Revised financial reporting and audit arrangements are applicable to the Council's charitable trusts and common good funds from 2013-14 as a result of new Office of the Scottish Charity Regulator (OSCR) regulations.

Page 27

Requirements	Summary observations	Audit findings
The application of the legislation and related regulations requires that a separate trustees' report and financial statements is required for the charitable trusts and common good funds in accordance with *Accounting and Reporting by Charities*: Statement of Recommended Practice.	The Council acts as trustee for 289 trusts and endowments, of which 113 were registered as charities in 2013-14. 37 of these trusts and endowments were registered as individual charities with the Office of the Scottish Charity Regulator (OSCR) and a group of 76 (SBC Charitable Trusts) were registered as a single charity with OSCR. The Charitable Trusts and the Common Good Funds were first subject to a statutory audit in 2013-14. These entities were audited again in 2014-15, along with the three newly established charitable entities covering the charitable purposes of relief of poverty, education and community enhancement and into which 35 of the previously individually registered charities were reorganised with the approval of OSCR. The remaining two stand alone funds were also registered for audit. This reorganisation is an ongoing process in consultation with OSCR to fully consolidate the remaining trusts and endowments and this is expected to be concluded in 2015-16. Draft trustees' reports and financial statements for all charitable entities were received for audit by the statutory deadline. These were presented and formatted consistently across all entities. Audit work included: ■ agreeing the charitable purposes of each charity as stated in the financial statements to OSCR; ■ reviewing the bodies' procedures for making grant awards where appropriate; and ■ testing significant items and agreeing to supporting documentation (note that materiality was determined for each charity separately). The audit process identified a number of presentational and disclosure amendments required to achieve full compliance with the framework set out in *Accounting and Reporting by Charities*: Statement of Recommended Practice. These were all made satisfactorily.	We have concluded our work in relation to Scottish Borders Council's charities and issued unqualified opinions.

Subsidiaries and associates (continued)

DRAFT

We have considered the Council's subsidiaries and associates against the requirements of group accounting standards.

We have considered the Council's arrangements in respect of following the public pound and arms-length external organisations (ALEOs).

Page 28

Requirements	Summary observations	Audit findings
The 2014-15 Code includes a requirement for the adoption of the new group accounting standards IFRS 10, IFRS 11, IFRS 12 and IAS 28. As part of adopting the new standards, management was required to identify interests in other entities and determine whether these were classified as subsidiaries, joint ventures or associates and ensure appropriate disclosure in the annual accounts.	Management prepared a schedule of group entities in advance of the audit and considered each entity against the new standards and classified each entity as a subsidiary or an associate. We compared management's disclosure of group entities against the requirements of the Code, incorporating the new group accounting standards. Subsidiaries are entities over which the Council can exercise control. Control occurs if the Council has: ▪ power over the investee; ▪ exposure, or rights, to variable returns from its involvement with the investee; and ▪ the ability to use its power over the investee to affect the amount of the investor's returns. The Council considers that the Trust Funds, Common Goods Funds and Bridge Homes LLP are subsidiaries. Associates are entities in which the Council can exercise a significant influence without support form other participants. The Council considers that the Borders Sport and Leisure Trust and the Jedburgh Leisure Facilities Trust are associates. The Council was not involved in any joint ventures in 2014-15. Our audit work also involved the consideration of the completeness of this disclosure and whether the Council is required to disclose any other related parties, such as Scottish Borders Housing Association.	We agree with management's classification of subsidiaries and associates in line with the requirements of group accounting standards. The subsidiaries are consolidated within the group accounts and receive separate statutory audits as required. We are satisfied with the completeness of this disclosure with no additional related parties identified through our consideration of completeness.
Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code").	We have considered management's processes to comply with the FtPP Code. Internal audit completed a review of social enterprise grants in 2014-15, which identified the impact, issues and opportunities relating to the areas which would assist the Council in fulfilling its duties and responsibilities in respect of providing Best Value services and adopting the FtPP principles. Management have confirmed that the Audit Scotland report *Arms Length External Organisations: Are you getting it right?* report was considered as part of the work on the establishment of new ALEOs. An internal audit review in 2014-15 gave a substantial level of assurance over contract monitoring arrangements with the sports trusts that are classified as ALEOs. In addition, the Limited Liability Partnership Strategic Governance Group (LLPSGG) has been established and its remit includes scrutiny of SB Cares, the Council's recently established ALEO.	No significant recommendations have been made to the Council in respect of weaknesses in compliance with the FtPP Code.

Governance and narrative reporting

Update on your governance arrangements and controls findings from our audit

Corporate governance arrangements

DRAFT

We considered the Council's corporate governance arrangements against a number of key areas which we consider to make up an effective governance framework.

Our audit findings against each key area are provided opposite.

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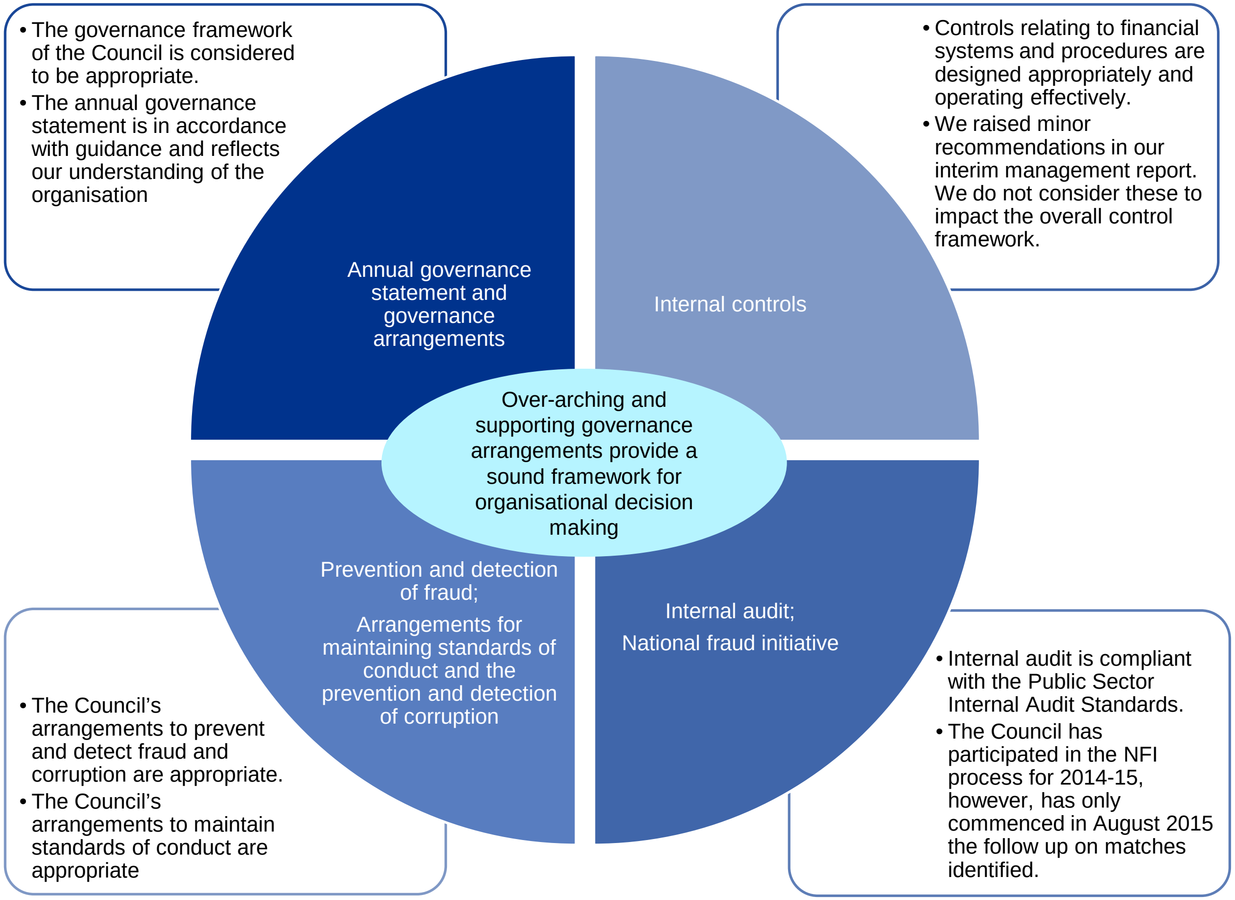

Corporate governance arrangements (continued)

DRAFT

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

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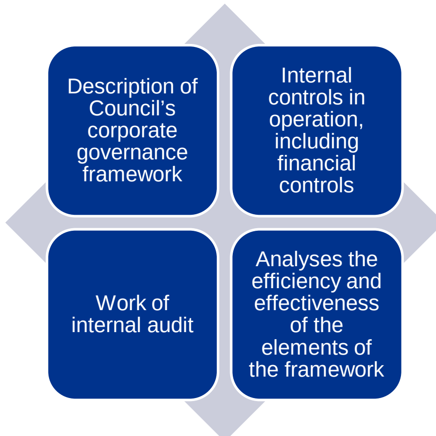
Annual governance statement

The Council includes an annual governance statement within its annual accounts. We consider the governance statement to be in accordance with guidance and reflects our understanding of the organisation. The following elements have been included.



Risk management

Management is continuing to review risk management arrangements to provide assurance to elected members over the mitigation of identified risks. The risk management strategy and supporting documentation demonstrate a commitment to good practice.

A corporate risk register is in place and is updated on an annual basis. The corporate risk register was updated and approved by council in February 2015.

Governance arrangements

The Council operates a cabinet structure, and has an audit and risk committee to ensure sound governance arrangements. A new committee structure has been in place since 1 January 2015 as a result of the council's review of governance and accountability. This was approved in principle by the Council in October 2014, with the scheme of administration and remits of each committee approved in November 2014.

Some of the issues that this review aimed to address included the perceived reduction in formal performance monitoring and corporate reviews in service committees and the perceived lack of independent scrutiny of decisions.

Key changes include removing service committees, the establishment of a scrutiny committee, along with a call-in procedure which will allow the group to review decisions made by the executive committee, and an extension of the executive committee remit.

Part of the scrutiny committee's remit is to independently monitor the performance of the Council towards achieving its policy objectives and priorities, and review the effectiveness of the Council's work against agreed standards, targets and budgets. It is considered beneficial to have independent scrutiny outside of the committee which made the original decision. The scrutiny committee has met on a monthly basis since its creation.

The review was carried out with the input of all political groups, as well as that of senior officers in the Council. The review recognised the new corporate structure within the Council and was informed through research on the effectiveness of committee structures in other local authorities, namely a December 2013 briefing report from the Financial Scrutiny Unit provided an overview of the decision making structures of local authorities in Scotland.

Corporate governance arrangements (continued)

DRAFT

We raised four recommendations in the interim audit report, in respect of bank reconciliations, journal authorisation and organisational policies. We welcome the progress in implementing the recommendations. In addition, a further control recommendation has been made as a result of our year end audit work.

Page 32

Internal controls

Scottish Borders Council management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the annual accounts. Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work.

As part of our interim audit report, we raised four recommendations in relation to control weaknesses, all of which were due to implemented by 31 May 2015. In addition, a control deficiency in relation to the fixed asset register reconciliation was identified during our year end audit testing.

Recommendation two

As the financial and operating environment in which the Council operates continues to change, with developing priorities and new and emerging financial and non-financial risks, it is increasingly important that the Council plan, supporting service plans and other developments are underpinned by effective organisation-wide controls, robust financial management processes and effective key financial controls.

Termination of waste management contract

In 2014-15, £2.2 million was written off as a result of the termination of a waste management contract. We have reviewed the Council's decision making process in relation to the termination of the contract. Key points include:

- these costs do not include any early termination fees or additional costs claimed by NES, as a "no fault" termination provision formed part of the contract;
- the decision was considered and made by the Council in February 2015:
- information was provided by an internal project team, supported by appropriate external professional advisors; and
- appropriate options were considered and due diligence processes are evidenced as being followed.

We are satisfied that the Council has followed appropriate procedures in relation to this decision. We have reviewed the business case relating to this decision, which was presented in February 2015 and set out the options available to the Council. The recommendations were approved by Scottish Borders Council in February 2015 and a joint statement issued publicly thereafter.

Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risks, confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively. Since the conclusion of our interim work, we have noted improvements in processes. There have been no other changes to the operation of controls under review.

Corporate governance arrangements (continued)

DRAFT

The Council has procedures in place for the prevention and detection of fraud and corruption.

The Council has only commenced in August 2015 the follow up on matches identified.

Page 33

Prevention and detection of fraud

No material fraud or other irregularities were identified during the year. The arrangements include policies and codes of conduct for staff and board members, supported by a fraud prevention policy and response plan. The Council participates in the national fraud initiative ("NFI") exercise, led by internal audit. We have discussed the Council's involvement in NFI opposite.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The Council has appropriate arrangements including policies and codes of conduct for staff and elected members, supported by a whistleblowing policy, and these are available to staff on the intranet. Management and members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance, material or otherwise, to their work at the Council.

The Council is also supported in this regard by a standards committee which assists in monitoring and scrutinising councillor and senior officer conduct.

National fraud initiative ("NFI")

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

We completed a return to Audit Scotland in December 2014 in respect of the council tax single person discount to electoral roll NFI exercise.

We completed a further return in June 2015, where our review of the Council's NFI participation resulted in a red grading (defined by Audit Scotland as "unsatisfactory where improvement is required as a priority").

The Council has only commenced in August 2015 the follow up on matches identified, however a draft plan is being developed and implemented in phases to complete this work. The timeline shows that management anticipate sample checking matches, reviewing and updating the system to meet the timetable set out in NFI guidance for 2014-15.

It should be noted that not all matches require to be followed up, however the Council should be focusing on high quality matches.

Recommendation three

We consider that the Council has appropriate arrangements to prevent and detect fraud, inappropriate conduct and corruption.

However, the follow up of identified matches within the NFI process has not been carried out in a timely manner

Corporate governance arrangements (continued)

DRAFT

The Council's internal audit department supports management in maintaining sound corporate governance arrangements and internal controls. We have found internal audit to be compliant with the Public Sector Internal Audit Standards.

Internal audit

Internal audit is provided by the Council's internal audit department and supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action. The head of internal audit has direct access to the audit and risk committee and the chief executive.

Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit. It requires external auditors to perform an annual assessment of the adequacy of the internal audit function. We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. This included a review of the internal audit charter, reporting lines, independence, accountability, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*.

From this assessment, and considering the requirements of International Standard on Auditing 610, we can apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

Internal audit has completed its agreed plan for the year ended 31 March 2015 and the annual report states that reasonable assurance can be placed on the overall adequacy and effectiveness of Scottish Borders Council's framework of governance, risk management and control for the year to 31 March 2015. The graphic opposite provides a summary of internal audit's work during the year.

Summary of internal audit work

- The agreed plan was broadly completed as planned for the year, with a few exceptions in agreement with management.
- 45 reviews completed.
- Out of a total of 34 recommendations, none were categorised as 'Priority 1 – high risk', eight as 'Priority 2 – medium risk', and 26 as 'Priority 3 – low risk'.
- Controls assurance statement provides reasonable assurance on the overall adequacy and effectiveness of the Council's governance framework, risk management and controls.
- Internal audit provides the Council with assurance over its control framework.

We have concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards.

We can apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there is no impact on our planned substantive testing.

Integration of health and social care

DRAFT

The integrated joint board receives its delegated powers as of 1 April 2016.

We have considered the Council's progress against milestones to date and its preparedness for key milestones for activities from 1 April 2016.

We consider the Council's progress to be appropriate and in line with most local authorities.

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Health and social care integration

In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This requires all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016. We have considered the Council's progress against milestones to its preparedness for activities from 1 April 2016. All statutory requirements have been met to date.

Milestone	Summary observations	Our view
Establishment of Shadow Board	The shadow board met throughout 2013-14 and 2014-15. Terms of reference and functions to be delegated as part of its remit were discussed and agreed. There has been good attendance at meetings.	The shadow board has fulfilled its role during 2013-14 and 2014-15.
Approval of integration scheme and establishment of Integrated Joint Board ("IJB")	The integration scheme for Scottish Borders Council was submitted to the Scottish Government in April 2015. The IJB met for the first time on 27 April 2015.	The Council met statutory requirements in relation to the integration scheme. With the IJB already operating, this is ahead of many councils in Scotland.
Governance and membership arrangements	The voting and non-voting members of the IJB were formally appointed and draft standing orders are in place.	Progress is in line with expectations. Management will need to consider remits of committees within the Council due to the impact of services transferred to the IJB, to ensure they reflect the new responsibilities and maintain scrutiny of services.
Appointment of chief officer and chief finance officer	The chief officer was appointed at the first meeting of the IJB. In respect of the chief finance officer (section 95 officer), recruitment is ongoing.	A vacancy in the chief finance officer post is not unusual for IJBs at this stage. However, there is a risk to the IJB's readiness for 1 April 2016 given the requirement for financial planning and due diligence in advance of this date.

Integration of health and social care (continued)

DRAFT

Health and social care integration (continued)

Milestone	Summary observations	Our view
Development of strategic plan	Section 32 of the Public Bodies (Joint Working) (Scotland) Act places a duty on IJBs to establish a strategic planning group ("SPG") which is involved in all stages of developing and reviewing the strategic plan. Membership of the SPG and its role and remit have been approved by the IJB. A consultation on the joint strategic plan has been undertaken and the second draft was considered by the IJB on 22 June 2015 and the Board of NHS Borders on 25 June 2015. The final draft for formal consultation will be presented to the IJB in October, with the final version (incorporating comments received from consultation) expected to be approved by the IJB in February 2016.	We consider that progress with developing the strategic plan is on track, and that the SPG will act as an appropriate forum to develop the strategic plan.
Budgets	Annual accounts will be required for the joint board from 2015-16 onwards and it is anticipated that partners will include financial information regarding the joint board in annual accounts for the same period. There is currently an aligned budgetary process until 1 April 2016, therefore any overspends remain the responsibility of the individual partner organisations.	As minimal spend is expected in 2015-16 we are comfortable that no formal budget is required. A budget for 2016-17 will need to be formed, and appointment of a chief finance office is a key step to enable this to happen.
Communication	Scottish Borders Council has a Communications and Stakeholder Engagement Plan and keeps stakeholders informed of the progress of Health and Social Care Integration and the IJB through the Council website, a newsletter and a series of engagement events. A communications officer has been engaged. The website has sections on the background of integration, the draft strategic plan and answers to frequently asked questions. Minutes are also available online.	The Council website, newsletters and events are considered sufficient to keep stakeholders informed. The IJB has stated that feedback from the engagement events fed into the development of the second draft of the strategic plan.

Performance management

Our perspective on the performance management arrangements, including follow up work on Audit Scotland reports

Performance management

DRAFT

Our work has identified that the Council's Best Value and performance management arrangements are generally robust.

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Performance management and Best Value

Scottish Government guidance on Best Value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

Included within the internal audit plan each year is a review of the systems for preparation and reporting of performance indicators, to provide assurance over best value. Internal audit considers best value as part of wider reviews, for example within the 2014-15 social enterprise grants review.

Our consideration of the work of internal audit, as part of our extended control work, did not indicate high risk findings within these areas. We consider that the Council has adequate processes to ensure best value. However we recognise that there are a number of criteria to consider within best value and the Council focuses its resources on particular areas.

In June 2015 Audit Scotland presented a report to the Accounts Commission summarising a review of all Scottish councils' response to the Commission's Statutory Performance Information Direction (2012). The Council scored favourably on the report, with full compliance in 12 of 18 themes. Areas for improvement identified include reporting on the following areas:

- staff engagement;
- property maintenance;
- criminal justice social work; and
- use of comparators.

Statutory performance indicator ("SPI") information is reported in detail on the Council's website, and progress is reported to the policy and performance review committee on a quarterly basis. We have prepared a report to Audit Scotland outlining the Council's process for collecting and reporting on SPIs.

We consider that the Council has appropriate arrangements to effectively manage performance and achieve Best Value in processes.

Performance management (continued)

DRAFT

The Council has established processes for the consideration of Audit Scotland's national performance audits.

We have prepared a return to Audit Scotland in 2014-15 in respect of our findings on financial capacity within the Council.

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Local response to national studies

Audit Scotland periodically undertakes national studies on topics relevant to the performance of local government bodies. To ensure that added value is secured through the role of Audit Scotland and its appointed auditors, auditors consider if audited bodies respond appropriately to reports from Audit Scotland's programme of national performance audits.

The Council has established processes for the consideration of national performance audits. All Audit Scotland performance audit reports are presented to the audit and risk committee. Presenting these to the audit and risk committee ensures members are aware of sector and national issues, and there is appropriate challenge for management in addressing any potential weaknesses.

Financial capacity in public bodies

Through the process of feedback within annual audit reports, current issues reports and sector meetings, Audit Scotland has identified that overall reductions in staff numbers in public bodies may be affecting the capacity of back-office functions and specifically finance.

Audit Scotland has requested the collation of baseline data across the public sector to inform sector specific overview reports and may inform a follow-up to the joint report on the public sector workforce which was published in November 2013 or support the development of the future performance audit programme.

We have completed a return to Audit Scotland in respect of our findings. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management. However, financial responsibility is concentrated and it is likely that with the establishment of the integrated health and social care joint board, responsibilities for the finance team will increase and capacity may be further stretched.

Recommendation four

We consider that the Council has appropriate arrangements to effectively respond to national studies.

We consider that the Council has appropriate financial capacity to effectively manage the organisation. Improvements could be made with regard to succession planning of key finance positions and ensuring capacity for the integration of health and social care.

Community Planning Partnership (CPP)

DRAFT

Audit Scotland carried out work in 2014 to assess the progress the CPP had made since its audit in 2012-13.

The latest Local Scrutiny Plan for the Council highlights that Audit Scotland also plans to carry out more follow-up work during 2015-16 to assess what further progress the CPP has made in addressing its improvement agenda.

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Audit Scotland has audited 8 community planning partnerships (CPPs) since 2013 and produced a national report on community planning in Scotland *Community planning: turning ambition into action* in November 2014. The audit report on Scottish Borders Council CPP was published in March 2013 as part of the first tranche of three local CPP audits that took place during 2012-13. The audit focused on:

- whether the CPP set a clear strategic direction, with clear improvement priorities, agreed by all partners, which reflect the needs of the area and are based on effective community engagement;
- whether the CPP has effective governance and accountability arrangements, and is it able to demonstrate effective shared leadership which drives improved outcomes for the area;
- whether the CPP established effective performance management arrangements which are delivering performance improvements (including effective self-evaluation arrangements) and securing best use of public resources (including service integration); and
- whether the CPP could demonstrate that its actions are making a difference for the area and delivering improved outcomes for local people.

This report included a seventeen point improvement agenda for the CPP and in 2015 Audit Scotland carried out some follow up work to assess what progress the CPP has made in addressing these improvement areas.

Strategic Direction

The CPP now has in place three clear key priorities; reducing inequalities, grow the economy and maximise the benefits of the low carbon agenda. Following the appointment of a communities and partnership manager and corporate performance and information manager last year, work has been taking place to develop a Performance Management Framework for the first of the key priorities, grow the economy. This has been scrutinised and approved by the Strategic Board and will be brought to them twice a year. This framework and approach for evaluation and monitoring will now be implemented for the other priorities.

Governance

Following an initial mapping of governance arrangements, there has been a streamlining and rationalisation of groups and sub groups that feed into the CPP. At the end of 2014 a review of the governance arrangements was carried out and the outcomes of this, alongside forthcoming changes from the Community Empowerment Act for the CPP will be presented to the Strategic Board in September 2016.

Aligning the work of partners

Partners are taking more responsibility for their contribution to the community planning process, although there is still a lack of clarity around the alignment of some individual partners priorities with the SOA. Whilst there has been little progress made in understanding the total resources available for all CPP work (which is acknowledged by the partnership), identifying resources and budgetary contributions from across the CPP partnership has been more successful at an individual project level.

Appendices

Mandatory communications

DRAFT

Mandatory communications relate to the Council and its related bodies.

There were no audit adjustments which required adjustment for in the financial statements.

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Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the draft financial statements which impacted on the net assets or net operating cost for the year. A number of numerical and presentational adjustments were required to some of the financial statements notes, to add extra disclosures or to include additional information to aid the reader of the financial statements.	-
Unadjusted audit differences	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.	-
Confirmation of Independence Letter issued by KPMG to the audit and risk committee	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our Audit Partner and audit staff.	Appendix two
Schedule of Fees Fees charged by KPMG for audit and non-audit services	Audit fees were agreed with management in accordance with the range specified by Audit Scotland. There were no non-audit services in 2014-15, but additional audit fees were agreed for the requested audit of Bridge Homes LLP.	-
Management representation letter Letters issued by the Council to KPMG prior to audit sign-off	We require representations from each of the audited bodies. There are no changes to the representations required for our audits from last year.	-

Auditor independence and non-audit fees

DRAFT

Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Council.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Council and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- regular communications;
- internal accountability;
- risk management; and
- independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the audit and risk committee.

Confirmation of audit independence

We confirm that as of 18 September 2015, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the audit and risk committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

Defined benefit obligation

DRAFT

In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit are within an acceptable range of KPMG's expectations.

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We set out below the assumptions in respect of employee benefits.

Defined benefit pension liability		
2015 £'000	2014 £'000	KPMG comment
(166,072)	(198,398)	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.

Assumption	SBC 2013-14	SBC 2014-15	KPMG central	Comment
Discount rate (duration dependent)	4.5%	3.3%	3.25%	Acceptable. The proposed discount rates are within an acceptable range of KPMG's central rates as at 31 March 2015.
CPI inflation	RPI - 0.8%	RPI – 0.8%	RPI – 1.0%	Acceptable. KPMG's view is that the differential between RPI and CPI should be higher and closer to 1%. SBC's assumptions could therefore be considered prudent (i.e. resulting in a higher liability).
Net discount rate (discount rate – CPI)	1.7%	0.9%	1.00%	Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3%.
Salary growth	RPI + 1.4%	RPI + 1.0%	Typically 0 –1.5% above RPI	Acceptable. The proposed assumptions are within the acceptable range.

The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of around 19 years. SBC's assumptions are towards the prudent end of KPMG's acceptable range.

A reconciliation from opening to closing deficit is included on the next page.

Defined benefit obligation (continued)

DRAFT

The table opposite shows the reconciliation of the movement in the movement of reserves statement.

Decreases to the pension scheme deficit in the year have been driven by changes to financial assumptions and growth in the value of the Fund's investment assets.

Our pension specialists have confirmed that the movements within I&E and movement in reserves statement are reasonable for the size and duration of SBC's pension scheme.

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	£'000	Deficit / loss	Surplus / gain	Impact	Commentary
	Opening pension scheme deficit			**(198,398)**	The opening IAS 19 deficit for the Scheme at 31 March 2015 was £198.4 million (consisting of assets of £433.4 million and defined benefit obligation of £631.8 million).
I & E	**Service cost**			(16,394)	The scheme is open to accrual. The service cost represents the value of new benefits built up over the year.
I & E	**Past service cost**			(1,094)	A past service cost of £1.1 million is recognised, relating to early retirement over the year.
I & E	**Net interest**			(8,973)	This is the difference between the expected return on assets and the interest on the defined benefit obligation.
I & E	**Unfunded pension payments**			1,422	These total £1.4 million which is in line with the prior year.
Cash	**Contributions**			12,517	The Council made contributions of £12.5 million, broadly in line with contributions made last year.
OCI	**Actuarial gain – demographic assumptions**			35,030	There was an actuarial gain on the demographic assumptions of around £35.0 million.
OCI	**Actuarial loss – financial assumptions**			(75,272)	There was an actuarial loss on the financial assumptions of around £75.3 million. This is primarily driven by a 1.1% decrease in the discount rate assumption as a result of falls in corporate bond yields.
OCI	**Other experience**			47,711	Other experience re-measurements resulted in a gain of £47.7 million.
OCI	**Return on assets**			37,379	The return on plan assets, excluding net interest expense, was £37.4 million.
	Closing pension scheme deficit			**(166,072)**	The closing IAS19 deficit for the scheme at 31 March 2015 is £166.1 million (consisting of assets of £485.0 million and defined benefit obligation of £651.1 million).

I&E – impacts on surplus /(deficit) within statement of comprehensive income and expenditure statement

Cash – cash-flow impact

OCI – charged through other comprehensive income

Action plan

DRAFT

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

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Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Transport infrastructure assets		**Grade three**
It is expected that the 2016-17 Code will adopt requirements of the *Code of practice on transport infrastructure assets* ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. Local authorities are advised to develop a project plan to during 2014-15 to help achieve successful implementation. This information is already captured in the whole of government accounts ("WGA") submission. However this was not prepared in time for the initial submission. There is a risk that management will not have the depreciated replacement cost figures for transport infrastructure assets as at 1 April 2015 to allow for a restatement of the 2015-16 balance sheet in line with the requirements of the Code.	In respect of readiness for the 2016-17 code, whilst the Council is in line with other local authorities in its preparedness, a formal project plan has not been formed and the WGA submission for 2014-15 is yet to be provided. The transport infrastructure asset valuation is being completed for WGA, however staff acknowledge this does not yet represent a complete listing. Management should continue to work on completing the transport infrastructure assets tab of the WGA prior to final submission. Going forward, this should be included in the first submission.	Agreed. **Responsible officer:** Corporate Finance Manager **Implementation date:** 31 December 2015

Action plan (continued)

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2 Fixed asset reconciliation		**Grade three**
The client has not prepared a reconciliation between the fixed asset register and general ledger at year end. There is a risk that these do not agree and then differences are presented on the balance sheet. Our testing did not identify any differences, however in future, if there were differences there is a risk that they would not be addressed in a timely manner. It is noted however that the Council implemented a new fixed asset register during the year and that a reconciliation to the general ledger was carried out before and after data migration which was reviewed.	Management should ensure a reconciliation is prepared in advance of the year end audit to confirm that the financial ledger has captured fixed assets correctly.	Agreed. **Responsible officer:** Accounting Manager **Implementation date:** 30 June 2016
3 National Fraud Initiative		**Grade three**
We completed a return to Audit Scotland in June 2015 to review the Council's participation in NFI. This resulted in a red grading, defined by Audit Scotland as "unsatisfactory where improvement is required as a priority". The Council has only commenced in August 2015 the follow up on matches identified, however a draft plan is being developed and implemented in phases to complete this work. The timeline shows that management anticipate sample checking matches, reviewing and updating the system to meet the timetable set out in NFI guidance for 2014-15.	The Council should follow up on matches identified in a timely manner. In respect of the most recent exercise, it is recommended that the Council ensures the plan for completion is followed. It should be noted that not all matches require to be followed up, however the Council should be focusing on high quality matches.	Agreed. **Responsible officer:** Corporate Fraud and Compliance Officer **Implementation date:** In progress, though to be completed by 31 March 2016

Action plan (continued)

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
4 Financial capacity in public bodies		**Grade three**
We completed a return to Audit Scotland in respect of our findings on financial capacity within the Council. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management. However, financial responsibility is concentrated and it is likely that with the establishment of the integrated health and social care joint board, responsibilities for the finance team will increase and capacity may be further stretched.	It is recommended that management consider its responsibilities in terms of the integrated joint board and ensure these are allocated to appropriate individuals. Preparation of the annual accounts of the integrated joint board should be included within the year end timetable for 2015-16 onwards. Annual accounts will be required for the period from the date of establishment of the Integration Joint Board, on the basis that there will be relevant transactions, such as Integration Joint Board operating costs,	Agreed. **Responsible officer:** Chief Finance Officer **Implementation date:** 31 December 2015

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Interim audit findings and recommendations

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Organisational policies		**Grade three**
Council policies state that they will receive an annual review, however these have not been evidenced as carried out on some of the policies we have reviewed as part of our interim audit. For example, the last review of the IT password policy is dated 11/11/2011 and the last review of the IT security policy was carried out April 2013. In addition, we made a similar recommendation in the prior year that policies should be updated, specifically the Housing and Council Tax Benefit Counter Fraud Policy (2010). It was confirmed by review of the policy on the intranet that it has not been updated.	The relevant policies should be reviewed and updated as necessary on the frequency stated in the policy. We note that since our interim audit the password policy and the security incident reporting and management procedure (associated with the computer security policy) have been reviewed and endorsed by the council's information governance group but have yet to be published on the intranet. We will review this again at our final audit and recommend that in future review is carried out as necessary on the frequency stated in the policy.	Agreed. **Responsible officer(s):** Chief Officer - IT **Implementation date:** 31 May 2015
2 Bank reconciliations		**Grade three**
Bank reconciliations have been prepared for each month, they have been signed as reviewed and prepared but they are not dated to indicate when the preparation and review took place. Therefore we cannot ensure that these are being prepared on a timely basis. In addition, bank balances are not fully reconciled to the ledger each month and there are balancing figures which cannot be explained at the time of our interim audit. The largest in the two months that we sampled was £48,500 in June 2014. Staff are looking into this and these balances will be reconciled or written off at year end (31 March 2015).	Differences become harder to reconcile as more time passes, therefore the risk is that there will be differences which cannot be reconciled. The differences identified are not material at present, therefore there are no concerns that this could potentially lead to a material misstatement. However, bank balances should be fully reconciled on a regular basis.	Agreed. **Responsible officer(s):** Chief Financial Officer **Implementation date:** 31 May 2015

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Interim audit findings and recommendations (continued)

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
3 Journal authorisation		**Grade three**
We found that 4 journals from our sample of 25 did not have documentation to support the performance of the authorisation control. Confirmation of authorisation of these journals had not been retained as required and therefore we could not confirm that this had been received before the journal was released. However, as a mitigating measure we were able to verbally confirm this, as well as reviewing supporting documentation to confirm that the journal was not posted in error.	All staff should follow the authorisation control as designed. Management could consider communicating with staff and circulating a reminder of the process.	Agreed. **Responsible officer(s):** Chief Financial Officer **Implementation date:** 31 March 2015
4 Password policy		**Grade three**
The password policy states that all organisational passwords should be a minimum of 9 characters, however this is not followed by the FIS system. In addition, we made a similar recommendation in the prior year that the policy should be updated to state the systems that this does not apply to. It was confirmed by review of the intranet that this policy has not been updated.	The password policy should be updated to explicitly state that these minimum password requirements do not apply to the systems that cannot support the required level of complexity.	Agreed. **Responsible officer(s):** Chief Officer - IT **Implementation date:** 31 May 2015

cutting through complexity

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SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2014/15

Report by Chief Financial Officer

EXECUTIVE COMMITTEE

29 SEPTEMBER 2015

1 PURPOSE AND SUMMARY

1.1 **This report presents Members with copies of the Council's audited Annual Accounts for 2014/15.**

1.2 The Council's External Auditors, KPMG, have now completed the audit of the Council's 2014/15 Annual Accounts. KPMG have prepared the Annual Audit Report (see Item 12(a) on Agenda) and have provided an unqualified independent audit opinion.

1.3 The Annual Audit Report summarises KPMG's conclusions, including:
- An unqualified audit opinion
- The Accounts have been prepared in accordance with relevant legislation, Codes of Practice and accounting requirements
- High quality working papers

1.4 KPMG identified four Grade 3 (minor) recommendations requiring action and these have been accepted by management and will be enacted within the agreed timescales.

1.5 The audited Annual Accounts for Scottish Borders Council, SBC Common Good Funds, the SBC Charitable Trusts and Bridge Homes LLP as contained in Appendices 1-4 are presented to the Executive Committee for approval prior to signature.

2 RECOMMENDATIONS

2.1 It is recommended that Audit & Risk Committee approve the following for signature by the appropriate individuals:

(a) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2015 (Appendix 1);

(b) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2015 (Appendix 2);

(c) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2015 (Appendix 3(i));

(d) the SBC Education Trust (Charity SC044762) audited Annual

Accounts for the year to 31 March 2015 (Appendix 3(ii));

(e) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2015 (Appendix 3(iii));

(f) the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2015 (Appendix 3(iv));

(g) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2015 (Appendix 3(v));

(h) the Scottish Borders Council Charitable Trust (Charity SC043896) audited Annual Accounts for the year to 31 March 2015 (Appendix 3(vi)); and

(i) the Bridge Homes LLP audited Annual Accounts for the period 7 February 2014 to 31 March 2015 (Appendix 4);

3 BACKGROUND

3.1 The various sets of unaudited accounts for 2014/15 were submitted to KPMG, the External Auditors, before the statutory deadline of 30 June 2015, following presentation of the draft accounts to the Audit & Risk Committee at the June meeting. KPMG began their detailed audit work in July and this was completed by the beginning of September.

3.2 As part of the statutory requirements the Council is required to advise the public of their right to inspect and object to the various sets of accounts and their supporting papers and make the documents available for inspection. This process was undertaken following the new timetable contained in the 2014 Regulations and the inspection period commenced on 1 July 2015. No competent objections to the Annual Accounts were received during the Public Inspection period.

3.3 The Council must meet the Local Authority Accounts (Scotland) Regulations 2014 (the 2014 Regulations) requirement to have the audited Annual Accounts approved by the local authority or the committee with responsibility for audit or governance prior to signature on the 30 September 2015. It has been identified that the Council's Scheme of Administration does not provide this authority to the Audit & Risk Committee and the next Council meeting is not until the 7 October 2015. As a result Emergency Powers have been sought to seek approval to amend the scheme of Administration on a temporary basis to enable the Council, Pension Fund, Common Good and Trust fund 2014/15 accounts to be submitted for approval to the Executive Committee on the 29 September, following consideration by the Audit & Risk Committee (28 September) thereby ensuring compliance with the statutory deadline of the 30 September 2015.

3.4 Following approval, the 2014 Regulations have the following requirements as set out in Part 3 Section 10 (3):

> *Immediately* ***following the approval of the Annual Accounts*** *for signature, the statements which form part of those accounts are to be signed and dated as follows—*
>
> *(a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;*
>
> *(b) the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;*
>
> *(c) the annual governance statement by the Chief Executive and the Leader of the Council;*
>
> *(d) the remuneration report by the Chief Executive and the Leader of the Council; and*
>
> *(e) the balance sheets by the proper officer, to authorise publication of the financial statements.*

These requirements apply to the Annual Accounts of the Local Authority and not to the charity or limited liability partnership accounts, although there are similar type signatory requirements. The proper officer for Scottish Borders Council is the Chief Financial Officer.

3.5 This report presents audited copies of:

- **Scottish Borders Council** Annual Accounts for year ending 31 March 2015 (Appendix 1)
- **Scottish Borders Council Common Good Funds** (Charity SC031538) Annual Accounts for the year to 31 March 2015 (Appendix 2)
- **SBC Welfare Trus**t (Charity SC044765) Annual Accounts for the year to 31 March 2015 (Appendix 3(i))
- **SBC Education Trust** (Charity SC044762) Annual Accounts for the year to 31 March 2015 (Appendix 3(ii))
- **SBC Community Enhancement Trust** (Charity SC044764) Annual Accounts for the year to 31 March 2015 (Appendix 3 (iii))
- **Thomas Howden Wildlife Trust** (Charity SC015647) Annual Accounts for the year to 31 March 2015 (Appendix 3 (iv))
- **Ormiston Trust for Institute Fund** (Charity SC019162) Annual Accounts for the year to 31 March 2015 (Appendix 3 (v))
- **Scottish Borders Council Charitable Trust** (Charity SC043896) Annual Accounts for the year to 31 March 2015 (Appendix 3 (vi))
- **Bridge Homes LLP** Annual Accounts for the period 7 February 2014 to 31 March 2015 (Appendix 4);

3.5 It is a statutory requirement to publish all of the sets of audited annual accounts, and the 2014 Regulations require this to be done no later than 31st October 2015. In addition those relating to registered charities are required to be submitted to the Office of the Scottish Charity Regulator (OSCR).

4 EXTERNAL AUDITOR'S ANNUAL REPORT 2014/15

4.1 KPMG has now completed their audit, and I am pleased to report that the all of the Annual Accounts contained in Appendices 1 – 4 has received an unqualified independent audit opinion.

4.2 KPMG's associated Annual Audit Report was presented as Item 5 (a) on the Agenda. As well as being unqualified, the report expresses the following headlines:-

- Statements supported by high quality working papers
- Statements are compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15
- The Management Commentary was in line with guidance, contained a readily understandable overview of the Council and was presented clearly, with good use of tables and graphs.
- KPMG were content with management's judgements and accounting treatment of the specific areas of audit focus.

4.3 The Annual Audit Report highlighted four specific recommendations together with graded risks. The areas in question are shown in Appendix 4 "Action Plan" of the External Auditor's Annual Audit Report. The areas in question are:-

- Transport Infrastructure Assets — Grade 3 (Minor)
- Fixed Asset Reconciliation — Grade 3 (Minor)
- National Fraud Initiative — Grade 3 (Minor)
- Financial Capacity in Public Bodies — Grade 3 (Minor)

These recommendations have been accepted by management and will be enacted within the agreed timescales.

5 IMPLICATIONS

5.1 Financial

There are no additional direct financial implications for the Council arising the approval of the Audited Annual Accounts or from the External Auditor's Annual Audit Report and it is expected that the actions contained in the Report will be carried out within existing resources.

5.2 Risk and Mitigations

There are no direct risks arising from the report apart from those identified in the External Auditor's Annual Audit Report. The planned management actions represent the mitigating actions which the Council will be taking.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report.

5.4 Acting Sustainably

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

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 a 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

As stated in paragraph 3.3 an Emergency Powers has been prepared to seek approval to amend the Scheme of Administration on a temporary basis with regard to the approval of the 2014/15 Annual Accounts.

6 CONSULTATION

6.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are being consulted and any comments received on the report will be presented to the Committee.

6.2 The Audit & Risk Committee considered the Appendices referred to in the Report along with the External Audit Report at the meeting on the 28 September 2015.

Approved by

David Robertson
Chief Financial Officer **Signature ....**

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager 01835 825016

Background Papers:
Previous Minute Reference: 30 June 2015 Audit & Risk Committee

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

Contact us at: Lynn Mirley, Corporate Finance Manager, Scottish Borders Council, Council HQ, Newtown St Boswells, Melrose TD1 0SA, 01835 825016, treasuryteam@scotborders.gov.uk

Scottish Borders Council

annual accounts

for the year to 31 March 2015

Scottish Borders Council

Annual Accounts 2014/15

Foreword
by the Leader of the Council

Welcome to the Annual Accounts for the Scottish Borders Council for the year ended 31 March 2015. 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 2014/15.

This year there is a new look to the report which includes a management commentary on the Council which outlines:

- what we do;
- how we are organised to do it;
- what our strategy and priorities are;
- our financial position for 2014/15;
- key aspects of our performance during 2014/15; and
- our plans for the future.

Highlights of 2014/15

Against a very difficult financial background, the Council has achieved a great deal during 2014/15 and I am proud, along with all of our elected members and officers, to have:

- ✓ Achieved 80% of planned efficiency savings on a recurring basis
- ✓ Delivered £257.7m of revenue spending within the revised budget
- ✓ Increased the General Fund Reserves of the Council by £1.9m
- ✓ Delivered Capital Investment of £31.4m in schools, flood protection, roads, lighting and other assets
- ✓ Established Bridge Homes LLP to deliver our affordable housing agenda
- ✓ Launched SBCares LLP to support delivery of front line care in adult services

Our Plans for 2015/16

The next year presents many opportunities for the Council. Foremost amongst these is that the Borders Railway re-opens in September 2015 along with the Transport Inter–change, presenting significant opportunities to create long term economic and social benefits for the Scottish Borders.

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

This programme includes the delivery of:

- ➢ The Scottish Borders Health & Social Care Partnership
- ➢ Frontline Services for Adult Social Care through SBCares
- ➢ Transformation across our services for Children & Young People
- ➢ The New Integrated Waste Management Plan

Acknowledgements

I would like to thank all officers involved across the Council for their hard work during the year to ensure the sound financial management of Council and the production of the statutory accounts.

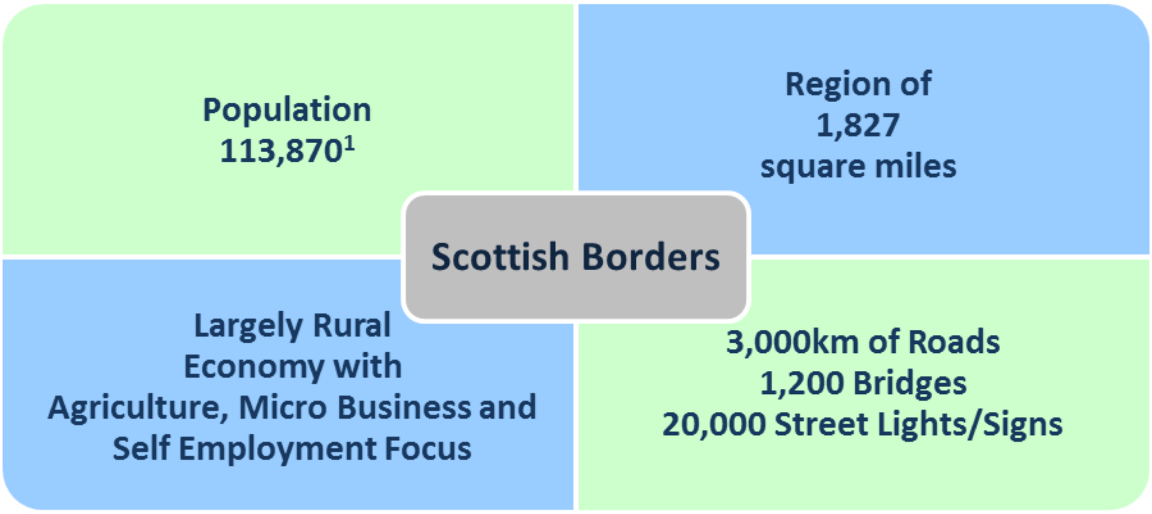
Councillor David Parker

Leader
Scottish Borders Council

Management Commentary

Who We Are and What We Do

A Profile of the Scottish Borders



The Scottish Borders population can be analysed as follows:

	Scottish Borders Council Population		
	Proportion of Total Population at 2011[1]	Comparison with Scottish Average at 2011[1]	Projected Trends 2010 – 2035[2]
Children aged under 16	17%	⇔ In line	⇧ Modest Increase
Working-age people aged 16-64	62%	⇩ Below	⇩ Decline
Pensioners aged 65	21%	⇧ Above	⇧ Substantial Increase

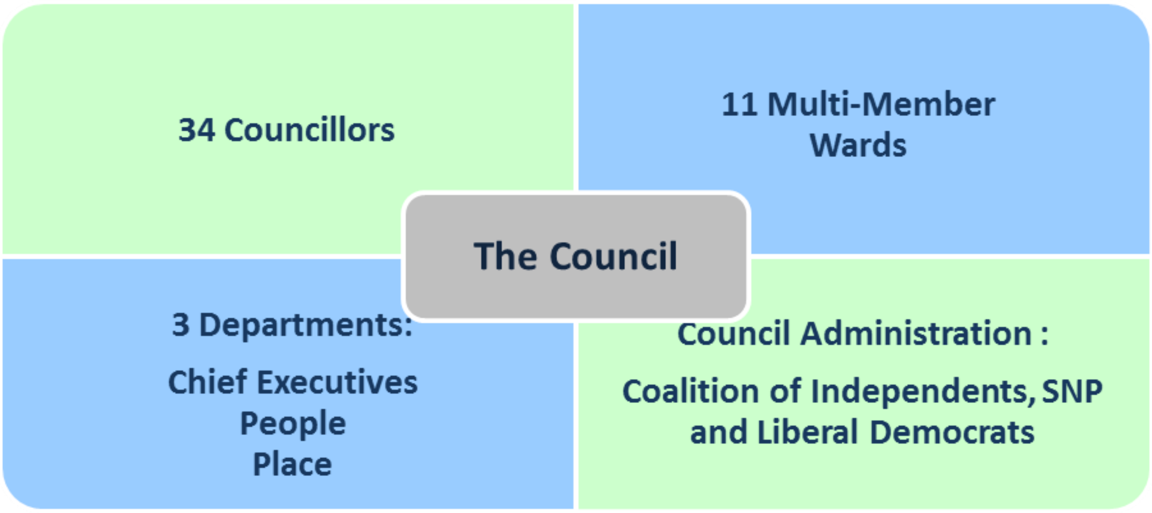
The National Records of Scotland project[3] projects a 10% increase in the population of the area between 2010 and 2035. Within the Scottish Borders profile shown above, there are significant implications for the delivery of the Council (and its community planning partners) services now and into the future. The aging population presents particular challenges in relation to the provision of care, the future sustainability of Borders workforce and economic development of the area.

The Scottish Borders is also one of the Scotland's largest yet most sparsely-populated regions - 6th-equal least populated region in Scotland[1] alongside neighbouring Dumfries and Galloway. This rural population distribution has implications for the costs of providing services, especially compared to the city environments like Glasgow and Edinburgh. The uneven distribution of the population in Scottish Borders also makes it harder to plan and deliver services.

[1] Per 2011 Census
[2] Per National Records of Scotland Project
[3] Per 2014 Scottish Borders Strategic Assessment

Management Commentary

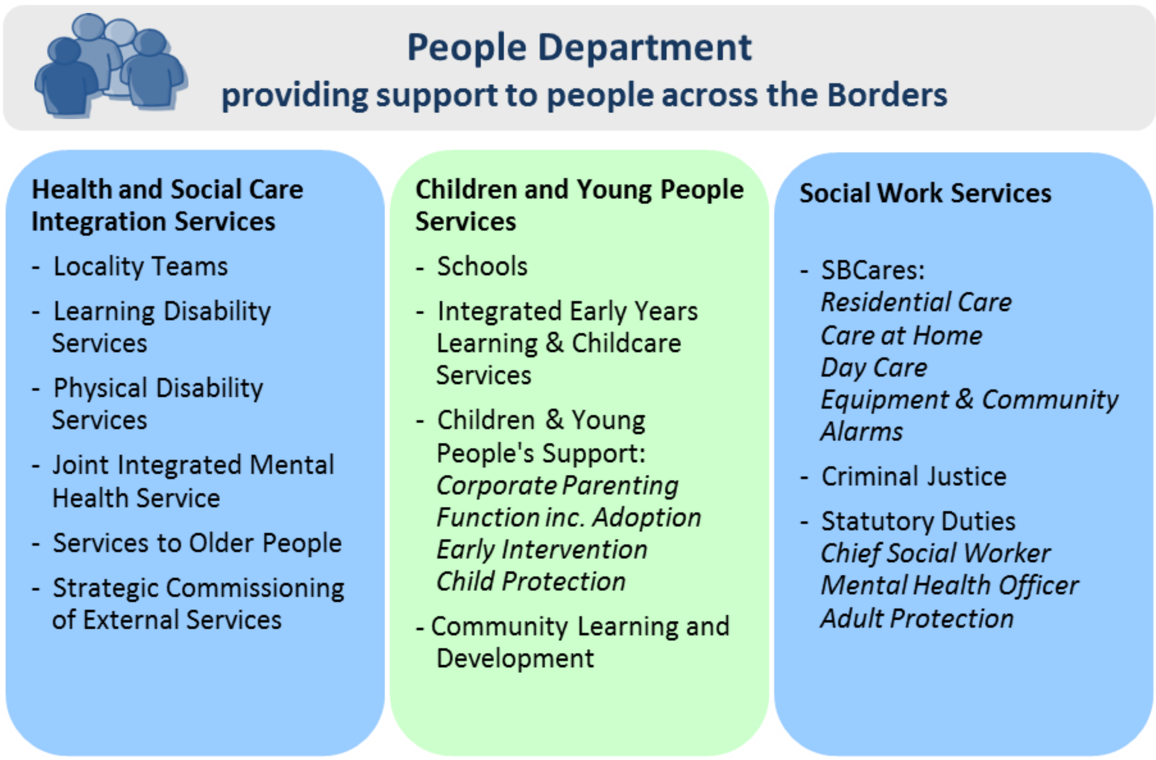
Scottish Borders Council



The Scheme of Administration sets out the operation of the Council. The Council's decision making is delivered through a Committee structure based on an Executive Committee and Scrutiny model.

The Council provides a range of essential public services throughout the region. The strategic management of the delivery of the services is undertaken by the Council's Corporate Management Team, led by Chief Executive, Tracey Logan and two Depute Chief Executives. Public Health is provided in collaboration with NHS Borders. Each department is responsible for implementing the policies of the Council, which comprises of 34 Elected Members (Councillors).

The Place and People Departments, each managed by a Depute Chief Executive, deliver the bulk of the Council's public-facing services. The Council's structure is summarised below:



Management Commentary

Place Department
providing services across the Borders

Regulatory Services

- Statutory Planning
- Building Standards
- Built and Natural Heritage
- Environmental Health
- Trading Standards
- Legal and Licensing Services
- Assessors Service
- Electoral Registration

Neighbourhood Services

- Roads Maintenance
- Winter Services
- Parks and Open Spaces
- Street Cleansing
- Burials
- SB Local
- Refuse Collection
- Waste Disposal
- Community Recycling
- Registration Services
- Contact Centres
- Call Centre
- Benefits Assessments

Commercial Services

- Asset and Network Management of Roads, Bridges and Lighting
- SBC Contracts
- Fleet Management
- Passenger Transport
- Property Maintenance and Asset Planning
- Building Cleaning
- Catering
- School Crossing Patrols

Capital Project Services

- Design and Delivery of Infrastructure Projects

Chief Executive Department
providing corporate and support services

Corporate Transformation & Services

- Programme Office
- Wellbeing & Safety
- Emergency Planning
- Communication & Marketing
- Information & Communication Technology (ICT)
- Culture & Sport
- Democratic Services

Strategy & Policy

- Economic Development
- Housing and Strategy Services
- Audit & Risk
- Strategy Policy Unit

Joint Health Improvement

- Health Improvement Programme Delivery

Finance & Procurement

- Stewardship & Accountability
- Financial & Performance Management
- Supporting Corporate Transformation

Human Resources

- HR Advisory Service
- Organisational Development Service
- HR Shared Services

Management Commentary

Strategic Direction

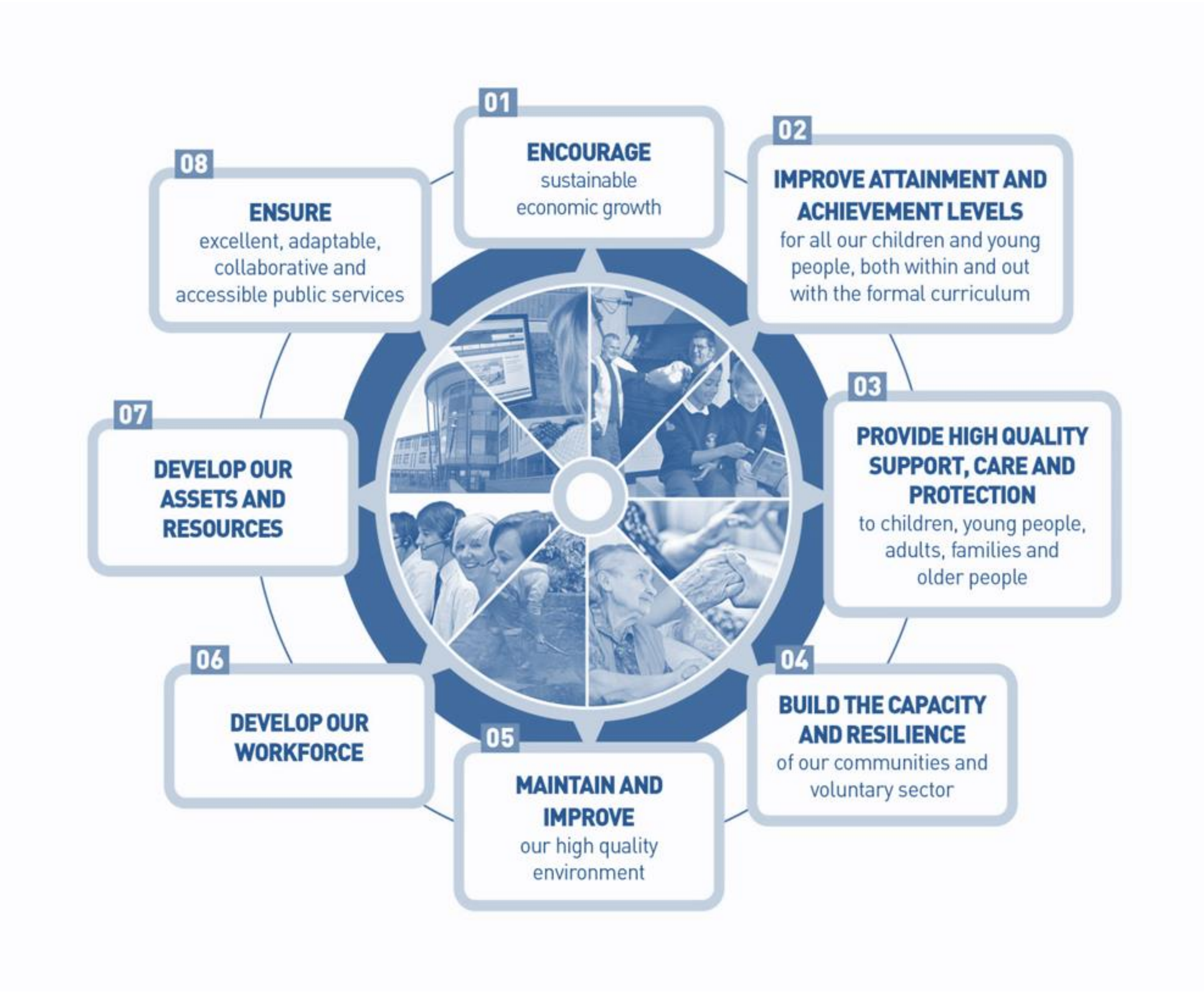
Our Vision

> ***"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

Our Priorities

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



The 2015/16 Business Plans of our individual service areas and the work we do with partners will help us to deliver these priorities can be found at www.scotborders.gov.uk/businessplans, and assessment of how we are doing against these priorities can also be found at www.scotborders.gov.uk/performance. Following the work to complete departmental Business Plans for 2015/16 the Corporate Plan will be reviewed and updated.

When working towards these priorities, the Council has set standards and values:

Our Standards	• Put our customers and staff at the heart of what we do • Be fair, equal and open • Continually improve our services • Work with partners and stakeholders • Deliver value for money in the use of our resources
Our Values	• Public Service • Respect for All • Courage • Integrity • Honesty • Commitment

Financial Strategy and Financial Plans

The Financial Strategy supports the delivery of the Council's Priorities and Corporate Plan. The Revenue and Capital Financial Plan provide a financial representation of these plans covering 5 and 10 years respectively. 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.

The Financial Risk Register informs the Council's Financial Strategy and its General Fund Reserves position. The Financial Strategy, the Financial Plans and the Treasury Management Strategy are approved by Council annually in February.

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.

Management Commentary

Performance Reporting

The Council has an agreed Performance Management Framework which covers the performance reporting arrangements for both the Council and for its work with Community Planning partners. As part of this framework reports on the Council's performance against the Council's Corporate Priorities (page 6) are presented on a monthly basis to the Corporate Management Team, and on a quarterly basis to the Executive Committee of the Council.

The delivery of the changes to the corporate and committee structures in the past year has led to the conclusion that the framework should be reviewed and this work is planned for 2015/16.

Reporting of Financial Performance follows the same cycle and consists of monitoring reports on the revenue and capital financial plans and an estimation of projected balances for key usable reserves including the General Fund and the Capital Fund.

In addition to the quarterly reporting there is a range of performance information published for a variety of purposes, locally and at a national level. All of the published performance information can be accessed via links which can be found from the "Our performance as a Council" webpage accessible via www.scotborders.gov.uk/performance . The performance information has been linked to each of the Council's 8 priorities.

Management Commentary

How we are doing - Financial Performance

Budget and Financial Strategy 2014/15

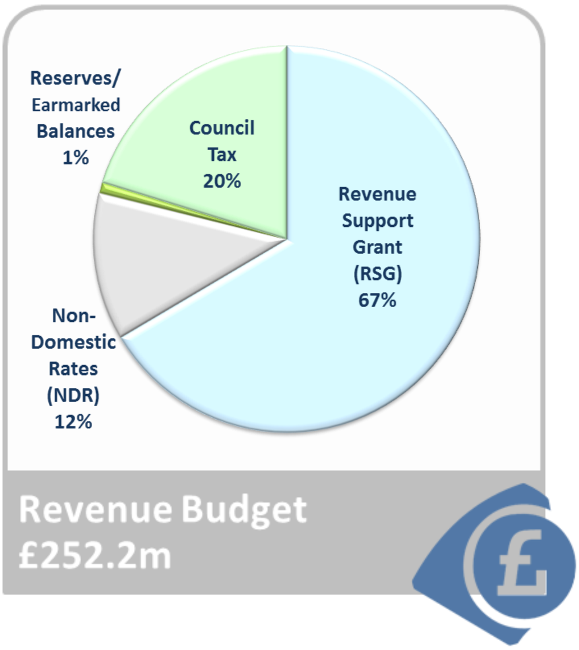
The budget for 2014/15 was approved by the Council on the 6th February 2014 and this included the Financial Strategy. The economic outlook had a direct bearing on public expenditure with the need for tight fiscal constraint to be maintained for the foreseeable future. The Council aim was to provide the best possible services within the resources available and this is the basis on which the Financial Strategy 2014/15 – 2018/19 was approved.

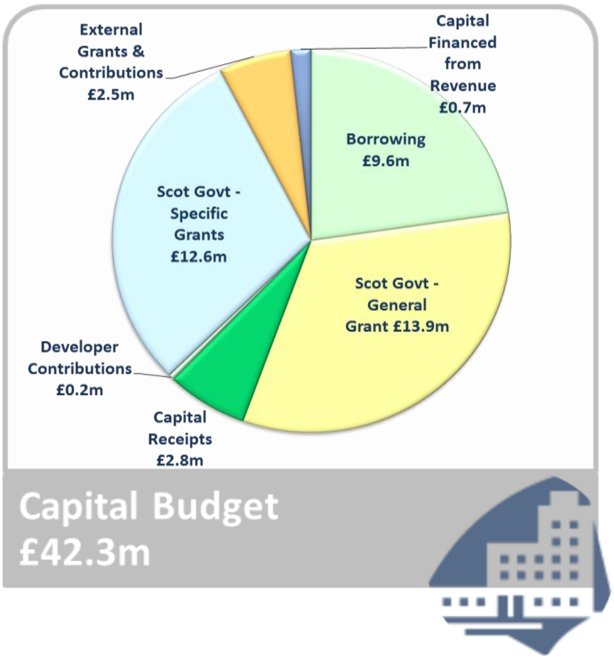
The recommended high level Financial Strategy to be followed the five year period was therefore to:

- **freeze council tax** in each year of the budget;
- set a **prudent, sustainable budget** in line with available resources;
- continue to **invest in infrastructure** through a sustainable capital programme financed by £20.8m loans charges per annum;
- provide support to an **Affordable Housing Investment Programme** of up to £18.8m for the delivery of 200 units;
- **maximise income** while keeping fees charged to service users at an affordable level;
- continue to **invest in business transformation and efficiency projects** to deliver long term financial savings and service benefits, and,
- **maintain unallocated reserves of £6.3m** for 2014/15 in line with the assessed risk register.

2014/15 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 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

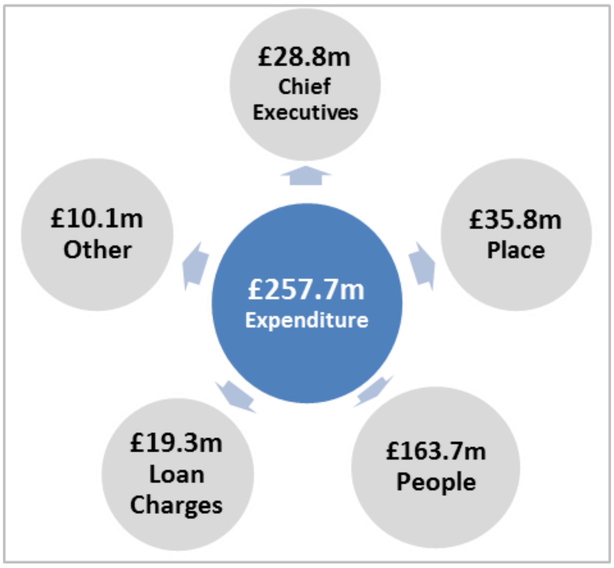
Financial Position at 31 March 2015

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 were approved. The final financial outturn reports were presented to the Executive Committee on 9 June 2015.

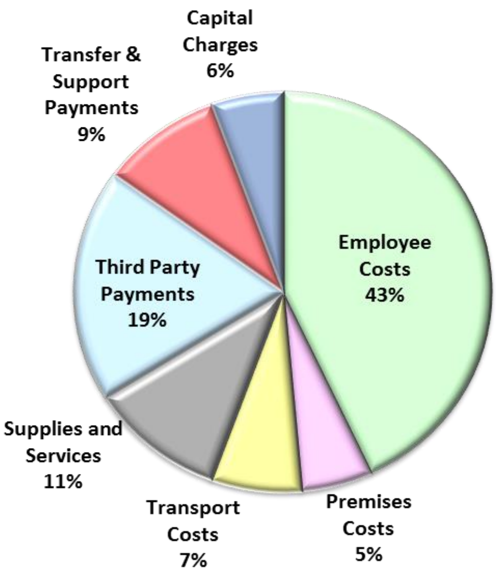
Revenue

The actual outturn for the financial year 2014/15, including funding sources, was a revenue expenditure of £257.7m representing a net under spend of £0.4m (0.16%) against the revised budget.

The following chart analyses the revenue by Council department:

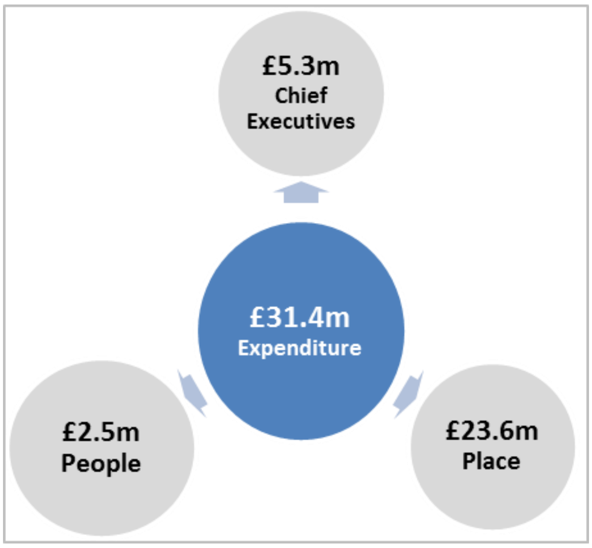


Revenue net expenditure for the year includes income of £91.2m, and expenditure of £348.9m as analysed in the chart below:



Capital

The actual outturn for the financial year 2014/15, including funding sources, was a capital expenditure of £31.4m representing a favourable variance of £3.4m (9.7%) against the revised budget, made up of £2.3m timing movement into future years and an underspend of £1.1m.



The capital programme delivered significant investment in the Scottish Borders during 2014/15 and the following table highlights some of the major projects undertaken:

Place	
•Galashiels Transport Interchange	£3.8m
•Roads & Bridge Maintenance	£2.5m
•Lighting inc. Energy Saving	£1.4m
•Kelso Town Centre inc. Heritage Work	£1.3m
•Flood Protection Schemes	£8.9m
•Kelso Recycling Centre	£0.8m

People	
•Kelso High School	£0.6m
•Early Years Programme	£0.5m
•Other School Estate	£1.1m
•Social Work Projects	£0.3m

Chief Executives	
•Wilton Lodge Park	£0.8m
•Eyemouth Seafood Technology Park	£0.4m

Management Commentary

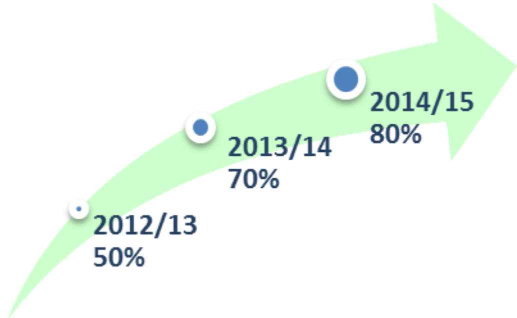
Delivery of Targeted Savings

Overall, savings of £8.1m were delivered during 2014/15 in order to balance the costs of delivering services and the available resources. The regular Budget Monitoring reports to the Executive tracked the delivery of these savings against the Financial Plan proposals. Analysis of the savings is as follows:

Efficiency Savings Delivered Permanently as Planned
80%

Permanently Achieved by Alternative Measures
1%

Temporarily Achieved by Alternative Measures
19%



% of Savings Achieved as Planned

This shows that £6.5m (80%) of the savings were delivered in full as approved within the Financial Plan. There is also a demonstrable sustained improvement overall in the delivery of agreed savings by the Council over the past 3 years. This is testimony to the regular monthly analysis, reporting and challenge undertaken during the year. It is acknowledged that there will be a requirement for ongoing effort to further improve this delivery performance in 2015/16 and beyond.

Departmental Commentary

People

Financial Review of 2014/15

✓ Permanently delivered £3.3m (87%) of required efficiency savings, of which £3.2m was achieved as planned

✓ Actions delivered within Department to significantly reduce impact of demand pressures on Adult Services and Integrated Children Services budgets

✓ Remainder supported by other areas of Council.

➤ Significant in year (£2.1m) pressures, caused by:

- Demand for children's out of area placements (£1.2m)
- Adults with Physical Disabilities increase in clients requiring increased or new care packages (£0.4m)
- Pressures in Older Peoples Services (£1.2m) for both home and residential care

Financial Outlook for 2015/16

Base budget for 2015/16 £167.3m

Additional Resources added include:

▲ Out of Authority Placements	£1m
▲ Children & Young People's Bill Early Years Childcare	£1m
▲ Free School Meals for all P1 - P3	£1.2m
▲ Older People Demographic	£0.6m
▲ Adults with Learning & Physical Disabilities	£0.7m

Potential Risks & Challenges for 2015/16:

↪ *Demographic pressures greater than provided for in Older Peoples Services, and Adults with Learning and Physical Disabilities and Out of Authority Placement for Children and Young People.*

↪ *Resurgence of house building following Borders Railway causing increased service demand*

↪ *Delivering effective Health and Social Care Integration*

Closed 2014/15 with a small over spend of £0.03m (0.02%) against the revised budget of £164.2m

Management Commentary

Place

Financial Review of 2014/15

✓ Permanently delivered £2.1m (73%) of required efficiency savings as planned

✓ Savings, mainly from Waste Services, used to support other in-department pressures

✓ Final out-turn influenced by reduced food costs and increased income from internal and external sources

➤ Signficant pressures in year (£1m) due to:

- Neighbourhood Services (£0.5m) mainly due to materials and external services costs
- Planning fee income significantly below budget (£0.5m)

➤ Termination of Waste Contract with NES

Financial Outlook for 2015/16

Base budget for 2015/16 £36.1m

Additional Resources added include:

▲ Reduced Planning Fee Income	£0.3m
▲ Leachate Management	£0.2m

Potential Risks & Challenges for 2015/16:

↪ *Delivering permanent savings associated with Neighbourhood Services and Integrated Waste Strategy*

↪ *Achieving Planning Fee Income Target*

↪ *SBcContracts continuing to secure work in the external market*

↪ *First full year of Food Waste Collections and delivery of Integrated Waste Strategy*

Closed 2014/15 with an under spend of £0.5 m (1.4%) against the revised budget of £36.3m

Chief Executive

Financial Review of 2014/15

✓ Permanently delivered £0.7m (70%) of required efficiency savings as planned

✓ £0.2m extra cost relating to Referendum funded by Scottish Government

➤ Pressures in year due to unachievable Income from Recharges to Non-General Fund (£0.07m)

Financial Outlook for 2015/16

Base Budget for 2015/16 £27.3m

No additional resources were added to the budget for 2015/16.

Potential Risks & Challenges for 2015/16:

↪ *Delivering the savings associated with the Cultural Services Review in the desired timeframe.*

↪ *Delivering the back office savings at the same time as increase support demand for corporate transformation agenda.*

↪ *Implementation of new financial system*

Closed 2014/15 with a small under spend of £0.08m (0.3%) against the revised budget of £28.9m

Management Commentary

Other Non-Departmental Expenditure including Loan Charges

The "Other" budget includes business transformation, early retirement/voluntary severance, loan charges, contribution to property maintenance – repairs and renewals fund, provision for bad debts, commercial rents, housing benefits and non-domestic rates relief. The budget also supports Discretionary Housing Payments, the Council Tax Reduction Scheme and Scottish Welfare Fund. The 2014/15 Financial Plan included efficiency savings of £0.5m relating to a reduction in Loan Charges which were delivered permanently in full.

During the year, as a result of continued tactical treasury management decisions, the Loan Charges budget achieved significant reductions in the cost of financing capital for the Council. This has been possible due to the ongoing low interest rate environment and the significant differential between the cost of short and long term borrowing. These savings were used to support budget pressures elsewhere in the Council and to create a Treasury Management Earmarked Balance to smooth the impact of future interest rate increases on the Council's financing costs.

OTHER: Closed 2014/15 with a small under spend of £0.03m (0.3%) of the revised budget of £10.2m

LOANS CHARGES: Closed 2014/15 with a small under spend of £0.04m (0.2%) of the revised budget of £19.3m

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement on page 41 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 out-turn reports in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2014/15 (the Code).

These accounting adjustments include depreciation, Loans Fund principal repayments and accrued holiday leave not taken by 31 March 2015. This results in the (statutory accounting) adjusted net cost of services of £252.7m compared with the reported departmental net cost of services of £257.7m. Note 5, page 59 provides additional analysis of the movement between these figures. Further statutory adjustments are then made to the "Net Cost of Services" in the comprehensive income and expenditure account shown on page 41 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 Surplus on the Provision of Services of £0.18m.

Other Comprehensive Income and Expenditure

Following the Actuarial Gains on the Pension Net Assets/Liabilities (£44.8m) the overall Net Comprehensive Income is a surplus of £44.9m (versus £4.3m in 2012/13). This significant improvement in the pensions net position is as a result of continued growth in the value of the Fund's investment assets relative to the its present value of the future pension obligations. The net assets under management by the Scottish Borders Pension Fund grew by 12% during 2014/15. 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

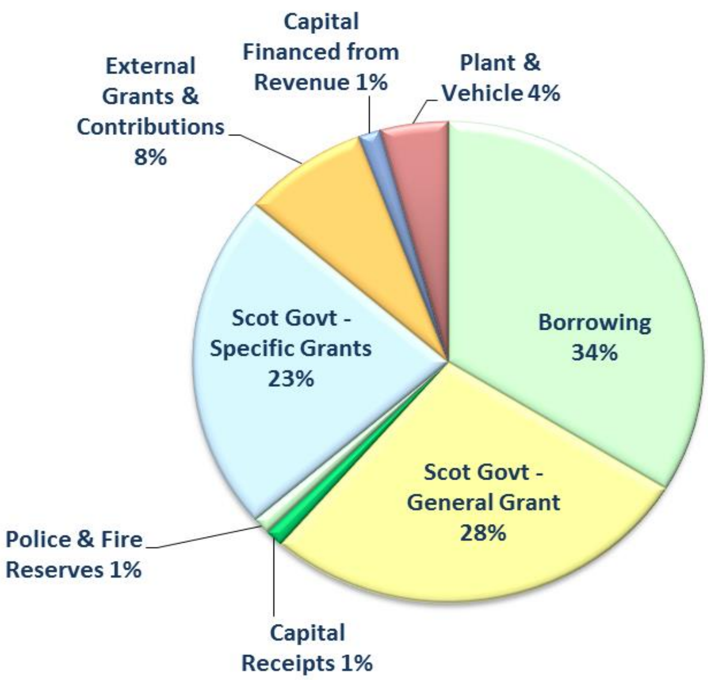
Capital Financing Requirement

In addition to the capital expenditure on fixed and intangible assets of £31.4m the Council utilised the Scottish Government's Consent to Borrow provision to increase the funding for the future asset decommissioning costs associated with Langlee Landfill by £2.9m (total provision for future liabilities £4m), and to provide the funding for capital expenditure on new affordable housing through the Council National Housing Trust Initiative via Bridge Homes LLP (£1m).

This chart shows the profile of the sources of the total £35.3m capital financing requirement for 2014/15.

The chart indicates that 34% (£11.9m) of the capital financing requirement was provided by the Council's capital prudential borrowing.

Actual Capital Financing 2014/15



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. In the Audit Commission's report "Borrowing and Treasury Management in Councils" published in March 2015 the Council's Treasury Management Strategy was highlighted as demonstrating good practice especially in relation to providing clear links between capital investment and treasury management.

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. It has also resulted in short term budgetary benefits highlighted on page 13.

External Debt

The Council's outstanding external debt as at 31 March 2015 was £175.3m, with the only additional long term borrowing during the year being an interest free loan (£0.3m) linked to the energy efficiency lighting programme. The average rate of interest paid on outstanding external debt was 6.5%.

Treasury Management Earmarked Balance

The Council identified, in conjunction with its advisors, that the increasing expectation of interest rate increases in the medium term exposed the Council to financing risk and that it was appropriate to identify approaches to manage this risk. The Council approved the establishment of a Treasury Management Earmarked Balance within the General Fund Reserve for the purposes of managing future costs of treasury and financing activities and the associated financing risk.

This balance creates an appropriate tactical mechanism to make financial provision in the current low interest rate environment to support the Council as interest rates increase and the financing need crystallises. It will provide resource to smooth out potentially higher costs in the future, by having resources which can be used to mitigate the impact of future interest rate increases on the Council's revenue budget.

The earmarked balance will be funded through the identification of opportunities to earmark funds due to short term savings in the revenue budget resulting from the current prudent approach to capital financing. During 2014/15 the Council was able to allocate £1.5m to the Treasury Management Earmarked Balance.

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 39).

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 88 provides additional information on the status of the usable and unusable reserves held by the Council.

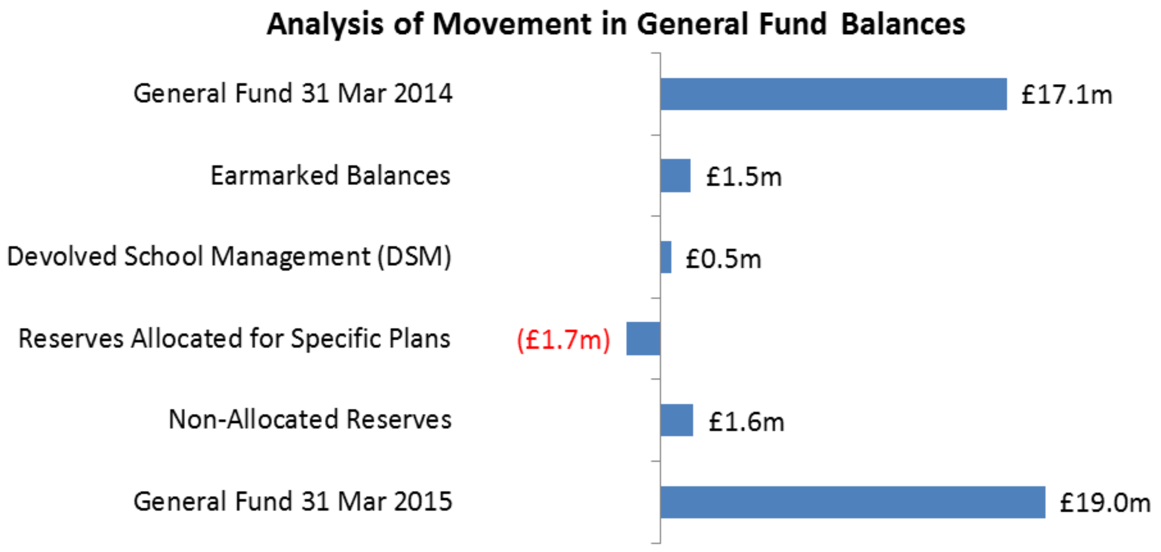
The Council's principal usable reserve is the General Fund Reserve and is maintained for three main purposes:

- 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 indicated previously, the Council's Financial Strategy identified that the optimum level of non-earmarked general reserve, as quantified by the financial risk register, was £6.3m.

As at 31 March 2015 the total General Fund Reserve Balance is £19m (£17.1m at 31 Mar 2014) an increase of £1.9m during the year. The increase, as can be seen from the chart on the following page, can mainly be attributed to the change in the non-allocated reserves and the increase in earmarked balances

Management Commentary



Within the detail of the movements there are the following key changes during 2014/15:

Non-Allocated Reserves	
Underspend in the Revenue Out-turn	£0.6m
Write down of the Council Tax Bad Debt Provision	£0.9m
Earmarked Balances including	
Creation of “Treasury Management Reserve”	£1.5m
Increase in DSM balances	£0.5m
Reserves Allocated for Specific Plans	
Provision for Roads Maintenance & SBCares related costs	£0.2m
Energy Efficiency & Change Fund	£0.3m
Previous provision to support 2014/15 revenue funding	(£1.2m)
Projects delivered through returned Police and Fire Reserves Funding	(£0.8m)

Scottish Borders Council Group Accounts

The Council has reviewed its position in relation to the preparation of Group Accounts and has identified a requirement for these to be prepared for the year ending 31 March 2015, including a comparator year ending 31 March 2014. The Group Accounts for 2014/15 can be found from page 99. The Group comprises of the following:

Subsidiaries

SBC Common Good Funds *(Registered Charity)*

SBC Trust Funds:
- *Registered Charities*
- SBC Charity Funds *(77 funds)*
- SBC Community Enhancement Trust
- SBC Welfare Trust
- SBC Education Trust
- Ormiston Trust for Institute
- Thomas Howden Wildlife Trust
- *and*
- 174 Non- Registered Trusts

Bridge Homes LLP

Associates

Border Sport and Leisure Trust

Jedburgh Leisure Facilities Trust

Management Commentary

Common Good and Trust Funds

The Council is trustee for the 8 Common Good Funds and large number of trusts and endowments. The Common Good Funds (collectively) and a proportion of trusts are held within charities registered with the Office of the Scottish Charity Regulator (OSCR).

Additional information on Common Good and Trust Funds can be found on page 94, and those funds that are in registered charities also have separately prepared and audited annual accounts – the box above highlighting the subsidiary organisations of the Council indicates which entities are registered charities.

The cash related elements of the Capital Reserves of these funds are invested, in accordance with the Common Good and Trust Fund Investment Strategy, with Newton Investment Management. 2014/15 was the first full year of investment in the pooled investment vehicle and has demonstrated improved returns to the Funds when compared with investing the cash on a short term basis within the Council's pooled cash management arrangements. It should, however, be noted that these are invested in the financial markets and therefore are at risk of volatility in return and capital value due to the nature of the investments.

The Council is in the process of reorganising trust funds which are under its custodianship in order to open up trusts for disbursement where their purposes are no longer relevant to modern society and welfare support structures, make the management and governance of the funds less burdensome, and reduce the number of financial statements requiring preparation and external audit.

During 2014/15 the Council successful transferred and wound up 34 individual registered charities and transitioned these funds into three new charitable trusts – SBC Welfare Trust, SBC Education Trust and SBC Community Enhancement Trust. The Council agreed the governance arrangements for these charitable trusts in May 2015. Project work on the reorganisation will continue throughout 2015/16.

Bridge Homes LLP

Scottish Borders Council in partnership with Scottish Futures Trust Investments Ltd (SFT) have established a Council Led House Building Programme (National Housing Trust Local Authority Variant) in order to deliver more housing in the Scottish Borders in line with the Local Housing Strategy. Bridge Homes aims to deliver up to 200 homes for mid-market rent.

Bridge Homes is 99.9% owned by the Council and is financed using approved loan debt of up to £18.8m funded by the Council's prudential borrowing along with a £3.3m contribution from the Councils' Affordable Housing Investment Budget. During 2014/15 the Council lent £0.99m to Bridge Homes under the Scottish Government's Consent to Borrow linked to NHT projects and this facilitated the acquisition of 10 affordable homes in the Scottish Borders.

The Scottish Government provides a guarantee of rent to cover the loan of up to £3,000 per housing unit delivered.

Scottish Borders Cares and Scottish Borders Supports LLPs

Scottish Borders Cares LLP (SBCares) and Scottish Borders Supports LLP were established by the Council before the 31 March 2015 to deliver a variety of social care services, however, these organisations did not commence operation until the 1 April 2015. These will become part of the Group Accounts as subsidiaries from 2015/16 onwards.

Management Commentary

How we are doing – Performance against Our Priorities

The Council has made progress in reporting and presenting its performance information relating to each corporate priority. The performance reporting section on page 8 explains the performance management framework and the cycle of monthly and quarterly reporting within the Council.

Each quarter, the report prepared for Executive Committee presents a mix of strategic and operational performance indicators for each corporate priority. These allow Elected Members to assess not only the performance of services but the wider impact of the Council's work. Below is a summary of the key performance information for 2014/15 and the priorities that we need to focus on moving forward to ensure that our priorities continue to be addressed.

1. Encourage Sustainable Economic Growth

Key Performance Information

- The % of people claiming JSA has dropped from 2.6% in Q4 last year to **1.8% in Q4 2014/15** and is below the Scottish average (2.4%).
- Our employment rate has increased from 74.9% in Q3 last year to **78.3% in Q3 2014/15** and is above the Scottish average of 72.6% *(note quarter lag in data).*
- The % of invoices paid within 30 days has increased from an average of 90% in last year to **93% in 2014/15,** benefiting local businesses.
- During 2014/15, we awarded **53 business grants (totalling £153k) and 5 business loans (totalling £50k).**
- The % of all planning applications determined within 2 months dropped marginally from 68.6% to **66.9% for 2014/15.**

Priorities for the Future

- Focus on areas for improvement within the Planning Performance framework, and move to measuring "average time taken" (in line with reporting to Scottish Government).
- Delivery of actions to maximise the full economic and social benefits of the Borders Railway.
- Maximise community and town access to digital connectivity / broadband and mobile telephony.

2. Improve Attainment and Achievement Levels for all our Children and Young People

Key Performance Information

- The % of young people entering a positive destination has increased from 91.2% in 2013 to **94.3% in 2014** and is the 4th highest of all Council areas in Scotland.
- Pupils in the Scottish Borders continued to attain **better than the national average in 2013/14** , although there is still a gap between the highest and the lowest performing pupils.
- The % of Primary schools meeting the Scottish Government target of 2 hours physical activity per week has increased from 78% last year to **94% in 2014/15.**
- There were **9 inspections within our schools and nurseries during 2014/15**. Significant strengths were identified and where there were weaknesses, improvement plans were developed.

Management Commentary

Priorities for the Future

- ➢ Improve the learning experience and opportunities for our children and young people through early intervention and prevention, and sustainable school estate and more integrated and streamlined management through delivery of the Children and Young People's Transformation Programme highlighted on page 24.
- ➢ Work with partners to implement the actions in the Developing Scotland's Young Workforce; Youth Employment Strategy.

3. Provide High Quality Support, Care and Protection to Children, Young People, Adults, Families and Older People

Key Performance Information

- The % of new service users receiving a service within 6 weeks of assessment has continued to exceed the 95% target and was at **98% during Q4 2014/15**, the highest all year.
- The % of adults over 65 receiving long term care and intensive homecare has dropped from 29.6% in Q4 2013/14 to **28.2% in Q4 2014/15** (as people start to manage their own care arrangements, through Self-Directed Support).
- Monetary gains for clients of our welfare benefits services totaled **£6.121 million for 2014/15**, compared to £6.127 in 2013/14, against a backdrop of significant welfare reform
- The ratio of looked after and accommodated children (age 12+) in a family based placement compared to residential has dropped slightly from 76% in Q4 2013/15 to **74% in Q4 2014/15** (target 80%).

Priorities for the Future

- ➢ Deliver the full integration of health and social care services to improve outcomes for service users and carers.
- ➢ Review our Adult Services strategy for supporting independence.
- ➢ Review specialist support for children and young people.
- ➢ Continue to support people through ongoing Welfare Reform.

4. Build the Capacity and Resilience of our Communities and Voluntary Sector

Key Performance Information

- During 2015/14 we awarded:
    - 49 Community Grants worth £0.15m, supporting projects totaling £0.98m.
    - 12 Landfill Communities Fund Grants worth £0.22m, supporting projects totaling £1.5m
    - Support for community groups to secure £2.5m of National Lottery Funding for the Scottish Borders.
- The number of Community Councils with active "Resilient Communities" Plans has risen from 22 in Q4 2013/14 to **30 in Q4 2014/15.**
- The number of people registered with SBAlert (online emergency messaging system), launched at the beginning of 2014/15, **reached 2098 registered participants in Q4 2014/15.**

Management Commentary

Priorities for the Future

- Continue to support communities with funding applications and to develop Resilient Communities plans.
- Ongoing promotion of SB Alert for use during emergency situations.
- Pilot our "Localities" approach in the Cheviot area (Kelso, Jedburgh and surrounding areas), and roll the approach out across the Borders.

5. Maintain and Improve our High Quality Environment

Key Performance Information

- The % of reported street lighting faults fixed within 7 days has remained consistently high, moving from 98.5% in Q4 2013/14 to **99% in Q4 2014/15.**
- The % of waste recycled through our Community Recycling Centres rose from 47.97% in Q3 2013/14 to **50.8% in Q4 2014/15** (note quarter lag in data).
- The % of household waste recycled has, in line with projections, reduced from 39.27% in Q3 2013/14 to **36.03% in Q3 2014/15** (note quarter lag in data).
- The % of our road network assessed as requiring maintenance has increased from 43.5% in 2013/14 to **45.5% in 2014/15.**

Priorities for the Future

- Revisit our Waste Strategy in the current legislative context, and introduce food waste collection during 2015.
- Complete our street lighting replacement programme (having already replaced 2,600 lanterns across the Borders with Energy Efficient LEDs) which will result in £5m investment over the programme.
- Continue to review roads maintenance investment and invest additional £1m per annum from 2018/19 onwards

6. Develop our Workforce

Key Performance Information

- The % of working days lost due to absence has been consistently meeting the target of **4% or below during 2014/15** through effective implementation of our absence management policy.
- The number of staff actively using our SB Learn online tool has increased from 1181 in Q4 2014/15 to **3335 for Q4 2014/15**, which accounts for almost all registered PC users.
- The % of women amongst the highest paid 5% of employees has risen from 41% in 2013/14 to **43.08% for 2014/15.**
- Through introduction of a Work Opportunities Scheme at the end of 2013/14, at total of **28 modern apprentices** were employed by SBC during 2014/15 contributing to the Council's commitment under the Borders' Guarantee.

Priorities for the Future

- Enable staff to deliver service improvements, review existing management and admin structures and deliver a reward and benefit strategy.
- A review of the way in which our staff work, where they work, when they work and the technology they need in the future.

7. Develop our Assets and Resources

Key Performance Information

- The % of our Industrial and Commercial properties occupied rose from 90% in Q4 2013/14 to **91% in Q4 2014/15.**
- The % of Council tax collected in year has remained steady at **96.52% for 2014/15** and is amongst the best in Scotland.
- The score achieved in the Scottish Government's annual Procurement Capability Assessment rose from 58% in 2013/14 to **65% in 2014/15** and is above the Scottish average of 62%
- The number of SBC properties sold has reduced from 13 in 2013/14 to **9 in 2014/15**. 18 properties were being actively marketed as at end of financial year, with 5 under offer. Market is slowly starting to improve.
- Council spend on electricity and gas has increased from £437,422 in Q4 2013/14 to **£471,208 in Q4** this year.

Priorities for the Future

- Explore the possibilities for joint delivery and co-location of services with partners, and the sharing of our property and assets.
- Development of an ambitious Energy Efficiency programme, with a focus on strategic "Spend to Save" projects and initiatives.
- Deliver new and refurbished schools in Kelso, Duns and Galashiels as well as Complex Needs Facilities.
- Investment in affordable housing of £18m through Bridge Homes LLP and additional Extra Care Housing.

8. Ensure Excellent, Adaptable, Collaborative and Accessible Public Services

Key Performance Information

- The % of Freedom of Information (FOI) requests completed on time has risen from 77% in Q4 2013/14 to **97% in Q4 2014/15**.
- The number of face to face and telephone transactions handled by our Customer Services staff reduced slightly from 51,250 in Q4 2013/14 to **46,690 in Q4 2014/15**.
- The total number of complaints received (excluding those classed as invalid) increased from 557 during 2013/14 to **619 in 2014/15**, representing an 11% increase.
- 504 of these complaints were closed at Stage One, representing 81.4% of all complaints closed.

Priorities for the Future

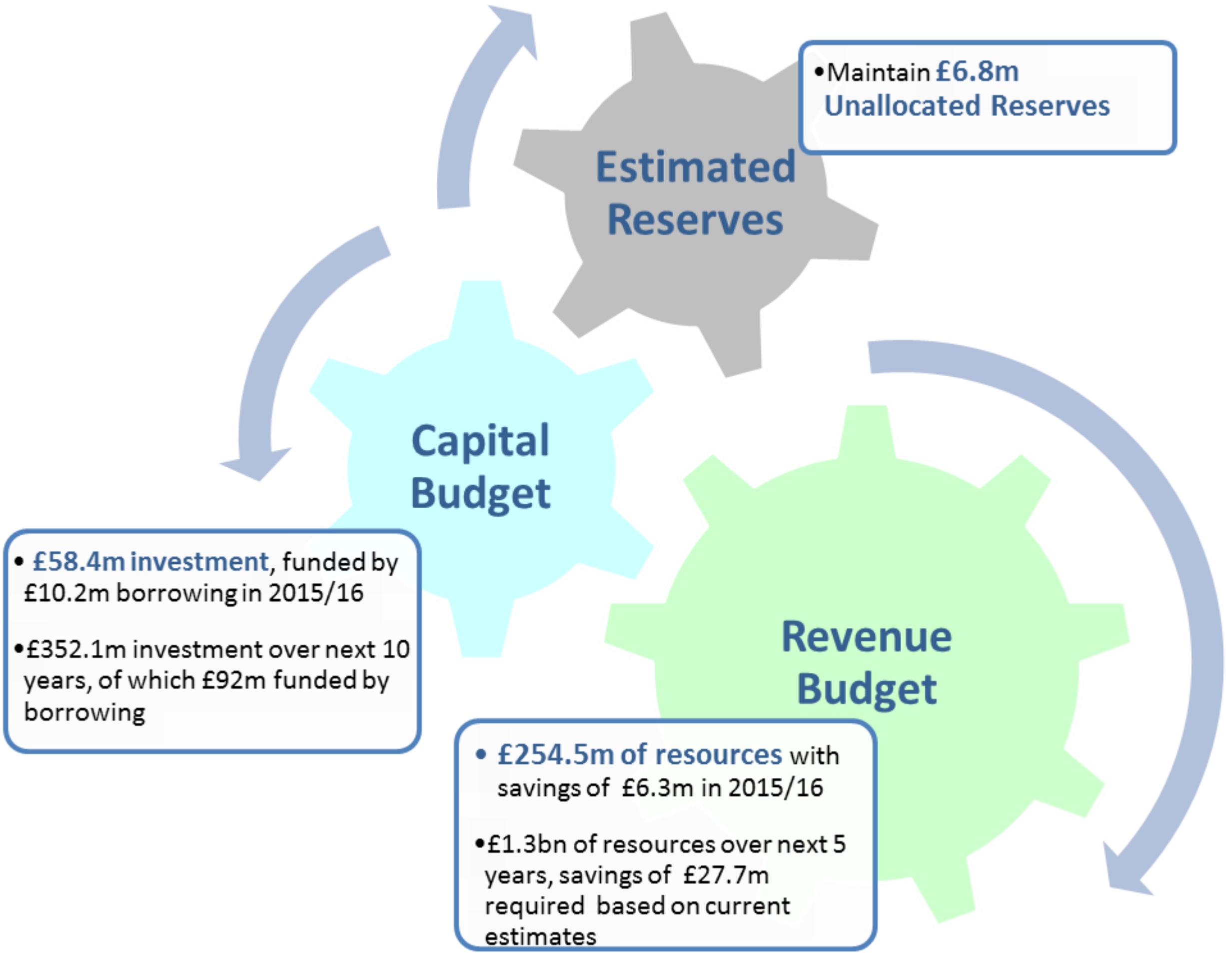
- Undertake process improvement work across a range of service areas (including complaints handling processes) including early engagement with service users and the public through various channels including social media. The implementation of a new financial system will support this work.
- Continue to roll out and develop modern customer services across the Council .
- Implement an ICT strategy that supports our service delivery and makes the necessary financial savings.

Management Commentary

Our Plans for the Future

The Council has an ambitious Corporate Transformation Programme, Capital Investment Programme and Individual 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



The Revenue and Capital Financial Plans 2015/16 onwards can be found on the Councils webpages at www.scotborders.gov.uk .

Management Commentary

Corporate Transformation Programme

During 2014/15 the Council's Corporate Management Team redeveloped the Transformation Programme for the Council and added additional programmes of work to it. This has resulted in 19 pieces of work being identified under the Council's Transformation Programme. Some of the areas of work are well underway and others are still in the earlier stages of scoping and project development.

Key Programmes/Projects Underway

Social Work Adult Services Programme

Work is well underway progressing in the service change and financial savings identified across a range of Social Work's Adult Services. This programme has seen the launch of SBCares to deliver many of the frontline services previously provided directly by the Council. 2015/16 will be a crucial year for SBCares in terms of bedding in the new management and operation structures and achieving the financial savings objectives.

A comprehensive review of charging was undertaken in 2014/15, focussed on the interests of clients and with the aim to deliver a number of key benefits including financial sustainability of services, fairness and equity in the application of charges, consistency of application across client groups and services, compliance with legislation and ensuring full application of the Council's policy on fees and charges. 2015/16 is the first year in which these benefits should be realised.

The continually increasing demographic implications on this service, means that delivery of savings continues to be challenging and requires stringent monitoring to ensure they are achieved.

Integration of Health and Social Care Programme

This programme, led by the Chief Officer - Health and Social Care Integration, is to deliver the Scottish Government's legislation-led integration initiative to have a Health and Social Care partnership for each of the 14 NHS Board areas in Scotland by April 2016. During 2014/15 the Council has been working with NHS Borders and voluntary and independent care partners to put in place simple joint working arrangements with the aim of providing better, more joined up adult health and social care services in the Borders.

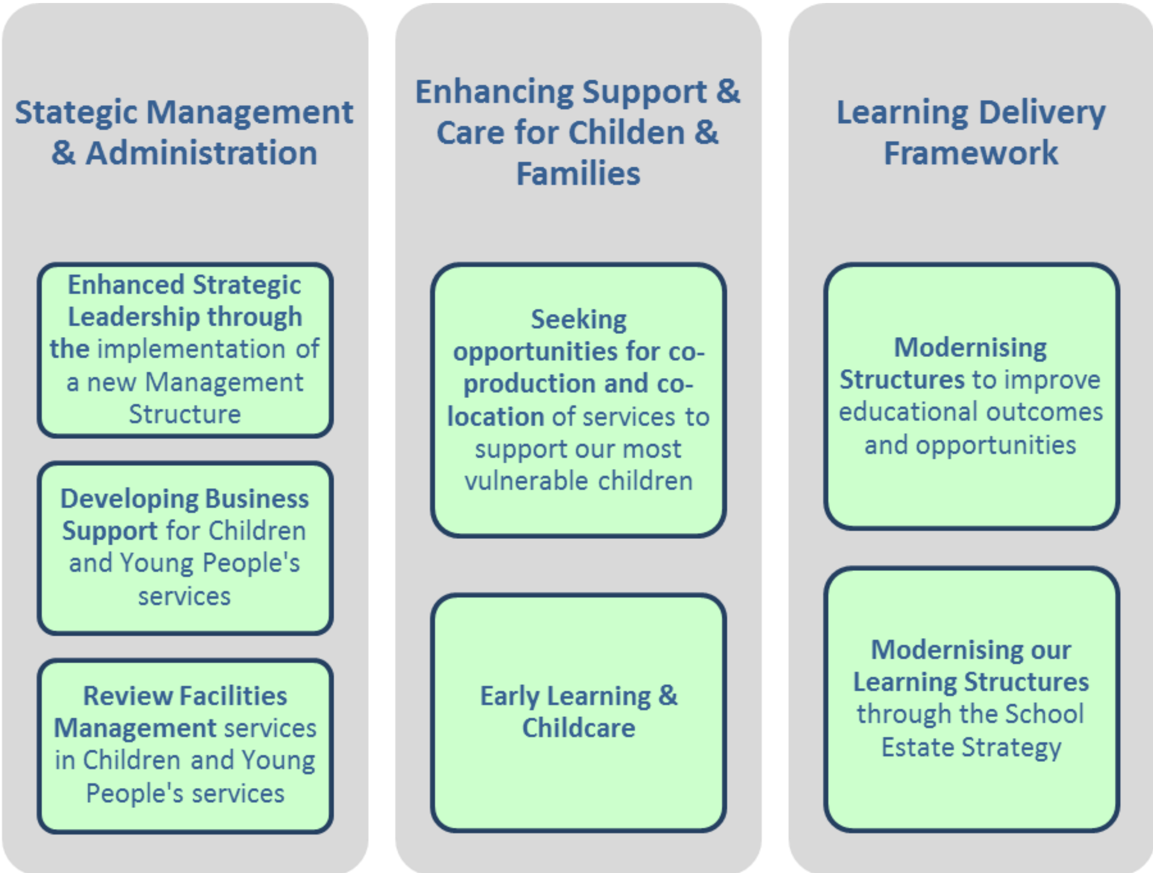
The formal joint working arrangements between NHS Borders and the Council were set out in the Scheme of Integration approved by Council and submitted to the Scottish Government on 31st March 2015. This involved the establishment of the Integration Joint Board.

The Scottish Borders Heath & Social Care Partnership's first draft Strategic Commissioning Plan 2015-18 is out for consultation with a target to finalise the plan in October 2015. It is not possible to formally delegate the service delivery from NHS or the Council until the Integrated Joint Board has approved the Strategic Commissioning Plan. There are five work streams to be delivered during 2015/16 to enable services and budgets to be integrated, and the approval of the finalised Strategic Commissioning Plan.

Management Commentary

Children and Young People's Transformation Programme

The work under this programme is organised into three themes:



Project managers have been appointed to drive forward this significant change agenda.

Borders Railway Programme

The Borders Railway re-opening in September 2015 will see three new stations opening in the Scottish Borders with trains running on 30 miles of railway between Tweedbank and Edinburgh. The project is the longest new domestic railway to be constructed in Britain for over 100 years and the Council see this as a huge opportunity to bring connectivity, inward investment and economic growth and increased tourism to the Scottish Borders.

During 2015 to mark the opening there will be a programme of events to promote the Borders Railway and maximise tourism and community engagement. In addition to the new stations the multi-million pound Transport Interchange in Galashiels will open.

Management Commentary

The Scottish Government issued *"Borders Railway – Maximising the Impact: A Blueprint for the Future"* in November 2014 setting out these ambitions in terms of tangible deliverables associated with the stated vision of:

> ***"By 2020 the benefits of better transport connectivity will continue to spread across Midlothian and the Scottish Borders. The region will have experienced significant economic and population growth from new and affordable housing, commercial and tourism development, a diversifying business base and new demand for learning and skills. Working in partnership with the business community, the challenge of delivering an ambitious programme of activity will have been met."***

For the Scottish Borders this includes:

- the location of the Great Tapestry of Scotland at Tweedbank in a new purpose built visitor hub; and
- the re-development of Tweedbank Industrial Estate into the Central Borders Business Park.

These projects, to be delivered in partnership, are included in the Capital Plan 2015/16 – 2024/25 reflecting the Council's commitment to securing long term benefits for the Scottish Borders.

Other Corporate Transformation Programmes/Projects

The other pieces of work within the Corporate Transformation Programme being progressed during 2015/16 and beyond include:

Workforce Transformation	**Localities Programme**	**Customer First**
Data/Information Sharing	**Alternative Models of Service Delivery**	**Digital Connectivity**
Information Technology	**Joint Delivery/Co-location**	**Property Assets**
Waste Strategy	**Business Process Re-engineering**	**Transport**
Energy Efficiency	**Co-Production of Services**	

Conclusion

The operating environment for the Council continues to be very challenging with financial and economic influences such as welfare reform, increasing demands on services, 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 future.

David Parker	**Tracey Logan**	**David Robertson CPFA**
Leader	**Chief Executive**	**Chief Financial Officer**
Scottish Borders Council		

29 September 2015

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 Executive Committee at its meeting on 29 September 2015.

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 2015.

David Robertson CPFA
Chief Financial Officer
29 September 2015

Annual Governance Statement

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. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with 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.

To this end, the Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles and recommendations of the CIPFA/SOLACE framework Delivering Good Governance in Local Government and the supporting guidance notes for Scottish authorities. A copy of our Local Code of Corporate Governance is available on the Council's website at www.scotborders.gov.uk.

This Annual Governance Statement explains how the Council has complied with the terms of the Local Code for the year ended 31 March 2015. 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 provides the framework against which compliance is measured. This Local Code sets out the 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:

i. The Council has a Single Outcome Agreement in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council's vision, strategic objectives and priorities are reflected in the Council's Corporate Plan and the Single Outcome Agreement which are approved by Council and published on the Council's website.

ii. The Council has an approved Performance Management Framework in place to enable progress to be monitored against the Council's Corporate Plan and Priorities, Single Outcome Agreement, and associated Service Business Plans and Financial Plans and to ensure it reports publicly on its performance.

iii. The Council responds to findings and recommendations of external audit, scrutiny and inspection bodies and its own independent internal audit section. The Audit & Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

iv. The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users.

v. 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. In particular, the system includes annually approved revenue and capital financial plans, medium term financial planning, setting and monitoring targets to measure financial performance, and regular reviews of periodic and annual financial reports which indicate financial performance against budgets.

vi. The Council is committed to the delivery of efficiencies through its transformation programme with the objective to deliver efficient and effective services to customers, whilst maintaining a robust control environment. On an annual basis it identifies efficiency savings to be made within the financial plans, and monitors their achievement on a regular basis.

vii. The Council is currently undertaking two significant strategic developments involving different structures for delivering its services. Firstly, from 1 April 2015 delivery of the Council's adult care services transferred to SB Cares, a wholly owned subsidiary as a Limited Liability Partnership (LLP). The LLP Strategic Governance Group, a Sub-Committee of Council, was set up to carry out the monitoring and control functions required by the Council in connection with SB Cares LLP. Secondly, a feasibility study of options for Cultural services is underway including an option for an integrated sports and culture trust.

viii. The Council fosters relationships and partnerships with other public, private, and voluntary organisations in delivering services that meet the needs of the local community.

ix. Significant work has been undertaken to develop the governance arrangements in respect of the Health and Social Care integration programme with the appointment of the Chief Officer for Health and Social Care Integration in July 2014, the submission of the final Scheme of Integration to Scottish Ministers on 31 March 2015, the establishment of an Integration Joint Board with effect from 2 April 2015, and the commencement on the development of the strategic plan which will become live on 1 April 2016. The Health and Social Care Integration Scheme for the Scottish Borders has been developed with the full involvement of the Council's Internal Audit section. The Chief Officer Audit & Risk has been fully involved in developing the governance scheme for the Partnership as a member of the Integration & Governance working group since November 2013 and has been consulted on the draft Scheme of Integration.

x. 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.

xi. In 2014 a new corporate management structure was implemented. Alongside the existing Chief Executive, this created two Depute Chief Executive posts and twelve service directors. In addition there were a number of changes lower down the organisational hierarchy. The roles of officers are defined in agreed job descriptions. Staff performance is reviewed on an annual basis in accordance with the performance review and development (PRD) process.

xii. 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.

xiii. The Chief Social Work Officer (CSWO) provides the Council with professional advice on the discharge of her statutory social work duties. She 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. The CSWO presents an account of this work in an annual report to Council. The report also gives an overview of regulation and inspection, workforce issues and social policy themes over the year and highlights some of the forthcoming challenges.

xiv. The Chief Financial Officer (the Section 95 officer) is responsible for the proper administration of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control under the terms of the financial regulations.

xv. The Service Director Regulatory Services (the Monitoring Officer) is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. In line with the Council's Monitoring Officer Protocol, an annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.

xvi. The Chief Officer Audit & Risk (Head of Internal Audit (HIA)) reports administratively to the Service Director Strategy & Policy, reports functionally to the Audit & Risk Committee, meets regularly with the Chief Financial Officer, and has direct access to the Corporate Management Team. The HIA reports in her own name and retains final edit rights over all internal audit reports and 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 of the Council's arrangements.

xvii. The Council has reviewed and refreshed its 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.

xviii. The Council has in place business continuity plans which set out the arrangements to ensure it can continue to deliver critical services if an incident of any kind occurs, has in place emergency plans to ensure it responds to any civil emergency in a way which meets the expectations of the Borders community, and is leading a Resilient Communities Initiative to enable communities working together in emergencies.

xix. The Council has reviewed and refreshed its 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.

xx. The scheme of members' remuneration sets out the terms of remuneration of elected members. Details of all members' allowances and expenses are published.

xxi. Personal development plans for elected members are being developed and these will be periodically supplemented by additional training further to the comprehensive Induction programme. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

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

xxiii. A range of systems and procedures are in place to ensure that elected members and employees are not influenced by prejudice or conflicts of interest in dealing with our citizens. A register of elected members' interests is maintained and published on the Council's website.

Review of Framework

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

The review is informed by the work of an officer self-evaluation working group on corporate governance which undertakes an annual self-assessment against the Council's Local Code of Corporate Governance. 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 is 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 by comments made by external auditors and other external scrutiny bodies and inspection agencies.

The conclusion from the review activity outlined above is that in 2014/15 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

Improvement Areas of Governance

The review has however identified a number of areas where further improvement in our governance arrangements can be made to ensure full compliance with our Local Code:

(a) The ongoing implementation of recommendations made by Internal Audit, External Audit and other external scrutiny and inspection bodies relating to internal control and governance, with particular emphasis on prompt implementation of high priority recommendations.

(b) Further implementation of approved governance arrangements associated with the Integration programme for Health & Social Care, ensuring delivery of structural reforms in local authority and NHS services in compliance with new legislation and regulations.

(c) In light of the ongoing significant challenges in addressing cost pressures and responding to the changes in government funding: (i) ensuring that financial, workforce and business plans are aligned to the Council's corporate plan and priorities, (ii) ensuring that options are fully appraised for alternative models and structures to enable delivery of efficient and effective services to customers in a sustainable way, and (iii) continuing to implement the welfare reform programme.

(d) Ongoing implementation of the Performance Management Framework to ensure performance measurement accurately and effectively linked to the delivery of the Single Outcome Agreement and the Council's Corporate Plan and Priorities informs improvement activity and decision making.

(e) Development and application of appropriate 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.

(f) Evaluation of the new Committee structure arising from the 2014 review within 12 months of its operation to assess the effectiveness of elected member scrutiny of plans and performance.

(g) Ongoing development of written guidelines and procedures of the key financial planning, management and administration processes linked to the Financial Regulations and provision of financial training to managers and budget holders across the whole Council.

(h) Consistent application across all the activity in the Corporate Transformation Programme of the demonstrated key success factors including the robust definition of Business Case and Benefits, Return on Investment, and Programme and Change Management to ensure there is confidence of the delivery of improvements and savings.

(i) Ensuring comprehensive 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.

(j) Monitoring and review to ensure there is a consistent approach to staff performance review and development (PRD) in all Council services, and roll out workforce planning and succession planning across the Council as part of its people management arrangements.

(k) Capturing compliments and other comments to gather a wide range of feedback from service users to complement the arrangements in place for dealing with complaints.

(l) Reviewing strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future and enhancing ongoing delivery of capital programmes and projects linked to corporate transformation programme.

These actions to enhance our governance arrangements in 2015/16 are incorporated where appropriate within the Council's business plans and their implementation and operation will be monitored in order to inform our next annual review.

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 Code in all significant respects.

Tracey Logan
Chief Executive

29 September 2015

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 2014/15 the salary for the Leader of Scottish Borders Council is £33,123. 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 £289,816. 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 Convenor, is £289,554. 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	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
£50,000 - £54,999 * ^	-	-	46	49	9	11	**55**	**60**
£55,000 - £59,999 *	3	2	8	9	1	5	**12**	**16**
£60,000 - £64,999 *	3	8	3	3	-	-	**6**	**11**
£65,000 - £69,999	1	-	1	1	-	-	**2**	**1**
£70,000 - £74,999	10	5	3	4	-	-	**13**	**9**
£75,000 - £79,999	2	4	-	-	-	-	**2**	**4**
£80,000 - £84,999 *	1	2	-	-	-	-	**1**	**2**
£85,000 - £89,999	1	1	-	-	-	-	**1**	**1**
£90,000 - £94,999	-	-	-	-	-	-	**-**	**-**
£95,000 - £99,999 ^	1	1	-	-	-	-	**1**	**1**
£100,000 - £104,999	2	1	-	-	-	-	**2**	**1**
£105,000 - £109,999	-	1	-	-	-	-	**-**	**1**
£110,000 - £114,999	-	-	-	-	-	-	**-**	**-**
£115,000 - £119,999 *	1	-	-	1	-	-	**1**	**1**
£120,000 - £124,999	-	-	-	-	-	-	**-**	**-**
£125,000 - £129,999	-	1	-	-	-	-	**-**	**1**
Total	25	26	61	67	10	16	**96**	**109**

Key:

* Indicates bandings that contain employees whose remuneration contained an element of voluntary severance or early retirement within 2014/15.

^ Indicates bandings that contain employees whose remuneration contained an element of voluntary severance or early retirement within 2013/14

Remuneration Report

Remuneration of Senior Councillors

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

Total Remuneration 2013/14 £	Councillor Name	Responsibility	Total Remuneration 2014/15 £
32,795	D Parker	Leader of the Council	33,123
24,596	G Garvie	Convener	24,842
57,391		**Leader and Convenor Remuneration**	**57,965**
24,596	J Mitchell	Depute Leader of the Council	24,842
22,220	M Cook	Executive Member for HR and Corporate Improvement	22,442
22,220	V Davidson	Executive Member for Culture, Sport, Youth & Communities	22,442
22,220	F Renton	Executive Member for Social Work & Housing	22,442
22,220	D Moffat	Executive Member for Community Safety	22,442
22,220	J Brown	Executive Member for Community Planning/Vice Convener	22,442
22,220	A Aitchison	Executive Member for Education	22,442
22,220	S Bell	Executive Member for Economic Development	22,442
22,220	G Edgar	Executive Member for Roads and Infrastructure	22,442
22,220	D Paterson	Executive Member for Environmental Services	22,442
19,947	W Archibald	Convener of the Licensing Board	20,146
19,947	M Ballantyne	Leader of Opposition	20,146
15,530 (FYE 22,220)	R Smith	Executive Member for Planning and Environment (until 11 July 2013 and from 31 October 2013)	22,442
3,823 (FYE 22,220)	A Nicol	Executive Member for Planning and Environment (from 29 August 2013 to 30 October 2013)	-
283,823		**Total Other Senior Councillor Remuneration**	**289,554**
341,214		**Total Senior Councillor Remuneration**	**347,519**

(1) The total remuneration figures relate to the salary, fees and allowance for 2014-15 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.

Restated 2013/14 £'000		2014/15 £'000
648	Salaries	660
104	Expenses	98
752	**Total**	**758**

The draft annual return of Councillors' salaries and expenses for 2014/15 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 new service groupings of Chief Executives, People and Place.

2013/14			2014/15				
Total Remuneration £	Name	Post Title	Salaries, fees and allowances £	Taxable Expenses £	Compensation for loss of employment £	Benefits other than in cash £	Total Remuneration £
	Senior Employees in post as at 01/04/15						
118,893	TM Logan	Chief Executive (1)	128,617	32	-	-	128,649
275 (FYE 102,228)	P Barr	Depute Chief Executive (appointed 31 March 2014)	103,251	-	-	-	103,251
-	J McDiarmid	Depute Chief Executive (appointed 7 April 2014)	99,816 (FYE 101,508)	-	-	-	99,816
102,228	JR Dickson	Corporate Programmes & Services Director (2)	106,515	-	-	-	106,515
81,476	KD Robertson	Chief Financial Officer	84,891	79	-	-	84,970
78,801	DA Cressey	Service Director Strategy & Policy	80,487	-	-	-	80,487
70,663	J Craig	Service Director Neighbourhood Services	78,717	-	-	-	78,717
63,275	C Hepburn	Chief Human Resources Officer	63,607	-	-	-	63,607
12,526 (FYE 77,937)	EH Torrance	Chief Social Work Officer (appointed 3 February 2014)	78,847	-	-	-	78,847
12,526 (FYE 77,937)	GB Frater	Service Director Regulatory Services (appointed 3 February 2014)	78,717	32	-	-	78,749
-	AF Drummond-Hunt	Service Director Commercial Services (appointed 1 April 2014)	72,732	101	-	-	72,833
-	D Manson	Service Director Children & Young People (appointed 2 March 2015)	6,855 (FYE 85,000)	-	-	-	6,855
	Senior Employees departed post before 01/04/15						
102,228	JG Rodger	Director of Education and Lifelong Learning (left 13 April 2014)	7,401 (FYE 102,228)	-	82,569	-	89,970
72,732	HL Thompson	Head of Transformation Projects (left 6 April 2014)	1,212 (FYE 72,732)	-	60,843	-	62,055
72,732	I Wilkie	Head of Corporate Governance (left 6 April 2014)	1,212 (FYE 72,732)	-	61,892	-	63,104
30,892 (FYE 72,732)	M Joyce	Interim Capital Projects Service Director (appointed 3 February 2014, left 29 March 2015)	75,301 (FYE 75,301)	3,049	-	-	78,350
819,247		Total	1,068,178	3,293	205,304	-	1,276,775

Notes

(1) TM Logan salaries, fees and allowances figure of £128,617 includes £4,296 Local Returning Officer fee for the European Parliamentary Election, £234 Returning Officer fee for the Hawick & Denholm By-Election, both in May 2014, and £3,276 Counting Officer fee for the Scottish Independence Referendum in September 2014.

(2) JR Dickson salaries, fee and allowances figure of £106,515 includes £1,836 Depute Local Returning Officer fee for the European Parliamentary Election, £176 Depute Returning Officer fee for the Hawick & Denholm By-Election, both in May 2014, and £2,276 Depute Counting Officer fee for the Scottish Independence Referendum in September 2014.

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).

No SBC senior employees received remuneration from subsidiaries during 2014/15.

Remuneration Report

Exit Packages

The total cost and numbers of exit packages are set out in the tables below for 2013/14 and 2014/15:

Exit Package Cost band (including special payments) 2014/15	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	14	11	**25**	181,000
£20,001 - £40,000	7	6	**13**	352,967
£40,001 - £60,000	-	2	**2**	92,169
£60,001 - £80,000	-	-	**-**	-
£80,001 - £100,000	-	-	**-**	-
£100,001 - £150,000	-	-	**-**	-
£150,001 - £200,000	-	-	**-**	-
Total	21	19	**40**	626,136

The total costs of £0.626m 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. A provision of £0.736m was set aside in 2013/14 to fund costs associated with exit packages agreed before 31 March 2014. In addition the Council's Comprehensive Income and Expenditure Statement includes a provision for £0.219m relating to exit packages agreed in 2014/15 for staff departures which will happen in 2015/16. These costs are not included in the pay bandings shown in the Pay Bandings table above.

Exit Package Cost band (including special payments) 2013/14	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	2	25	**27**	182,471
£20,001 - £40,000	-	5	**5**	151,546
£40,001 - £60,000 (1)	-	2	**2**	86,226
£60,001 - £80,000	-	2	**2**	140,263
£80,001 - £100,000 (2)	-	1	**1**	85,954
£100,001 - £150,000	-	2	**2**	239,558
£150,001 - £200,000 (3)	-	1	**1**	166,191
Total	2	38	**40**	1,052,209

Notes

(1) Decrease of £13,389 compared to value disclosed in 2013/14 accounts due to recalculation based on actual leaving date.
(2) Decrease of £1,045 compared to value disclosed in 2013/14 accounts due to recalculation based on actual leaving date.
(3) Increase of £3,317 compared to value disclosed in 2013/14 accounts due to recalculation based on formal pension calculation.

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 final salary 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 65.

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 2014/15 were as follows:

Whole Time Pay	2014/15
On earnings up to and including £20,335 (2013/14 £19,800)	5.50%
On earnings above £20,335 and up to £24,853 (2013/14 £19,800 to £24,200)	7.25%
On earnings above £24,853 and up to £34,096 (2013/14 £24,200 to £33,200)	8.50%
On earnings above £34,096 and up to £45,393 (2013/14 £33,200 to £44,200)	9.50%
On earnings above £45,393 (2013/14 £44,200)	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 guarantees 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).

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.

As of 1 April 2015, the Local Government Pension Scheme (Scotland) Regulations 2014 come into effect. This will change the future pension benefits accrued and this will be reflected in next year's annual accounts.

Remuneration Report

Pension Benefits of Senior Councillors

The pension entitlements for Senior Councillors for the year to 31 March 2015 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 2014 £	For year to 31 March 2015 £	Type	As at 31 March 2015 £	Difference from 31 March 2014 £
D Parker	Leader of the Council	5,903	5,962	Pension Lump Sum	4,375 p.a. 2,532	597 p.a. 5
G Garvie	Convener	4,427	4,472	Pension Lump Sum	1,177 p.a. -	421 p.a. -
J Mitchell	Depute Leader of the Council	4,427	4,472	Pension Lump Sum	2,572 p.a. 1,489	433 p.a. 59
M J Cook	Executive Member for HR and Corporate Improvement	4,000	4,040	Pension Lump Sum	3,157 p.a. 1,827	408 p.a. -11
V Davidson	Executive Member for Culture, Sport, Youth & Communities	4,000	4,040	Pension Lump Sum	2,881 p.a. 1,667	403 p.a. 10
D P Moffat	Executive Member for Community Safety	4,000	4,040	Pension Lump Sum	2,628 p.a. 1,521	398 p.a. 29
J Brown	Executive Member for Community Planning/Vice Convener	4,000	4,040	Pension Lump Sum	3,519 p.a. 4,592	406 p.a. 77
A Aitchison	Executive Member for Education	4,000	4,040	Pension Lump Sum	2,462 p.a. 1,425	394 p.a. 42
S Bell	Executive Member for Economic Development	4,000	4,040	Pension Lump Sum	1,088 p.a. -	382 p.a. -
G Edgar	Executive Member for Roads and Infrastructue	4,000	4,040	Pension Lump Sum	1,088 p.a. -	382 p.a. -
D Paterson	Executive Member for Environmental Services	4,000	4,040	Pension Lump Sum	6,990 p.a. 15,010	444 p.a. 195
W Archibald	Convener of the Licensing Board	3,590	3,626	Pension Lump Sum	2,354 p.a. 1,365	357 p.a. 29
R Smith	Executive Member for Planning and Environment (until 11 July 2013 and from 31 October 2013)	3,684	4,040	Pension Lump Sum	2,684 p.a. 1,553	399 p.a. 25
Total		**54,031**	**54,892**			

Notes

(1) Councillors Renton, Ballantyne and Nicol 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 2015 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 2015.

Name	Post Title	In-year pension contributions: For year to 31 March 2014 £	In-year pension contributions: For year to 31 March 2015 £	Accrued pension benefits: Type	Accrued pension benefits: As at 31 March 2015 £	Accrued pension benefits: Difference from 31 March 2014 £
Senior Employees in post as at 01/04/15						
TM Logan	Chief Executive	21,071	21,746	Pension Lump Sum	36,882 p.a. 74,406	3,094 p.a. 2,306
P Barr	Depute Chief Executive (appointed 31 March 2014)	-	18,584	Pension Lump Sum	17,676 p.a. 22,054	17,671 p.a. 22,054
J McDiarmid	Depute Chief Executive (appointed 7 April 2014)	-	17,967	Pension Lump Sum	1,664 p.a. -	1,664 p.a. -
JR Dickson	Corporate Programme & Service Director	18,401	18,401	Pension Lump Sum	6,572 p.a. -	1,703 p.a. -
KD Robertson	Chief Financial Officer	14,666	15,280	Pension Lump Sum	26,057 p.a. 52,705	2,405 p.a. 2,119
DA Cressey	Service Director Strategy & Policy	14,184	14,488	Pension Lump Sum	35,208 p.a. 81,477	2,413 p.a. 2,577
J Craig	Service Director Neighbourhood Services	12,719	14,169	Pension Lump Sum	26,780 p.a. 56,725	3,931 p.a. 5,833
C Hepburn	Chief Human Resources Officer	10,768	11,025	Pension Lump Sum	6,805 p.a. 2,039	1,156 p.a. 48
EH Torrance	Chief Social Work Officer (appointed 3 February 2014)	13,689	16,531	Pension Lump Sum	35,622 p.a. 83,251	2,482 p.a. 2,830
GB Frater	Service Director Regulatory Services (appointed 3 February 2014)	13,242	14,169	Pension Lump Sum	36,140 p.a. 84,804	3,601 p.a. 5,572
AF Drummond-Hunt	Service Director Commercial Services (appointed 1 April 2014)	13,092	13,092	Pension Lump Sum	24,873 p.a. 52,800	1,212 p.a. -
D Manson	Service Director Children and Young People (appointed 2 March 2015)	-	1,234	Pension Lump Sum	116 p.a. -	116 p.a. -
Senior Employees departed post before 01/04/15						
JG Rodger	Director of Education and Lifelong Learning (left 13 April 2014)	18,401	664	Pension Lump Sum	48,999 p.a. 119,798	2,691 p.a. 6,430
HL Thompson	Head of Transformation Projects (left 6 April 2014)	13,092	218	Pension Lump Sum	39,062 p.a. 98,943	20 p.a. -
I Wilkie	Head of Corporate Governance (left 6 April 2014)	13,092	218	Pension Lump Sum	34,242 p.a. 84,484	20 p.a. -
M Joyce	Interim Capital Projects Service Director (appointed 3 February 2014, left 29 March 2015)	5,560	13,021	Pension Lump Sum	1,717 p.a. -	1,206 p.a. -
Total		**181,977**	**190,807**			

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. 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.

David Parker
Leader
Scottish Borders Council

Tracey Logan
Chief Executive

29 September 2015

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.

Movement in reserves during 2013/14

	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 01/04/2013	(15,019)	(6,800)	(133)	(1,388)	**(23,340)**	54,205	**30,865**	
Movement in reserves during 2012/13								
(Surplus)/deficit on provision of services	6,436	-	-	-	**6,436**	-	**6,436**	
Other Comprehensive Income & Expenditure	-	-	-	-	**-**	(10,694)	**(10,694)**	
Total Comprehensive Income & Expenditure	6,436	-	-	-	**6,436**	(10,694)	**(4,258)**	
Adjustments between accounting basis & funding basis under regulations								
Charges for depreciation & amortisation of non-current assets	(19,993)	-	-	-	**(19,993)**	19,993	**-**	**12 & 14**
Impairment losses (charged to CI&ES)	(618)	-	-	-	**(618)**	618	**-**	
Revaluation Losses	(3,064)	-	-	-	**(3,064)**	3,064	**-**	
Capital grants and contributions applied	14,868	-	-	-	**14,868**	(14,868)	**-**	**28**
Icelandic Banks Statutory Adjustment	605	-	-	-	**605**	(605)	**-**	**29**
Icelandic Loss Adjustment	(585)	-	-	-	**(585)**	585	**-**	
Employee Statutory Adjustments	(1,370)	-	-	-	**(1,370)**	1,370	**-**	
Profit/(Loss) on disposal of assets	349	(1,181)	-	-	**(832)**	832	**-**	
Revenue Exp Funded From Capital	(529)	-	-	-	**(529)**	529	**-**	**10**
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	205	-	-	-	**205**	(205)	**-**	
Net retirement charges per IAS 19	(24,093)	-	-	-	**(24,093)**	24,093	**-**	
Loans Fund principal repayments and Statutory premia	11,717	-	-	-	**11,717**	(11,717)	**-**	
Capital Expenditure charged to General Fund balance	432	-	-	-	**432**	(432)	**-**	
Employers contribution payable to Pension Fund	11,609	-	-	-	**11,609**	(11,609)	**-**	
Net (Increase)/Decrease before transfers	**(4,031)**	**(1,181)**	-	-	**(5,212)**	**954**	**(4,258)**	
Net Transfers to or (from) other reserves	1,913	1,058	(167)	27	**2,832**	(2,832)	**-**	
(Increase)/Decrease in 2013/14	**(2,118)**	**(123)**	**(167)**	**27**	**(2,380)**	**(1,878)**	**(4,258)**	
Balance at 31/03/2014	**(17,136)**	**(6,923)**	**(300)**	**(1,361)**	**(25,720)**	**52,327**	**26,607**	

Movement in Reserves Statement

Movement in reserves during 2014/15

	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 01/04/2014	(17,136)	(6,923)	(300)	(1,361)	**(25,720)**	52,327	**26,607**	**31**
Movement in reserves during 2014/15								
(Surplus)/deficit on provision of services	(179)	-	-	-	**(179)**	-	**(179)**	
Other Comprehensive Income & Expenditure	-	-	-	-	-	(44,745)	**(44,745)**	
Total Comprehensive Income & Expenditure	(179)	-	-	-	**(179)**	(44,745)	**(44,924)**	
Adjustments between accounting basis & funding basis under regulations								
Charges for depreciation & amortisation of non-current assets	(20,886)	-	-	-	**(20,886)**	20,886	**-**	**12 & 14**
Impairment Losses (charged to CI&ES)	(3,085)	-		-	**(3,085)**	3,085	**-**	
Revaluation Losses	(288)	-	-	-	**(288)**	288	**-**	
Capital grants and contributions applied	20,768	-	-	-	**20,768**	(20,768)	**-**	**28**
Employee Statutory Adjustments	1,270	-	-	-	**1,270**	(1,270)	**-**	
Profit/(Loss) on disposal of assets	(288)	(747)	-	-	**(1,035)**	1,035	**-**	
Revenue Exp Funded From Capital	(3)				**(3)**	3	**-**	
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	(25,039)	-	-	-	**(25,039)**	25,039	**-**	
Loans Fund principal repayments and Statutory premia	10,818	-	-	-	**10,818**	(10,818)	**-**	
Capital Expenditure charged to General Fund balance	935	-	-	-	**935**	(935)	**-**	
Employers contribution payable to Pension Fund	12,517	-	-	-	**12,517**	(12,517)	**-**	
Net (Increase)/Decrease before transfers	**(3,254)**	**(747)**	-	-	**(4,001)**	**(40,923)**	**(44,924)**	
Net Transfers to or (from) other reserves	1,399	118	261	47	**1,825**	(1,825)	**-**	
(Increase)/Decrease in 2014/15	**(1,855)**	**(629)**	**261**	**47**	**(2,176)**	**(42,748)**	**(44,924)**	
Balance at 31/03/2015	**(18,991)**	**(7,552)**	**(39)**	**(1,314)**	**(27,896)**	**9,579**	**(18,317)**	**31**

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.

Restated 2013/14				2014/15			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
117,471	(4,796)	112,675	Education	118,088	(4,506)	113,582	
35,621	(31,646)	3,975	General Fund Housing Services	38,676	(33,469)	5,207	
12,055	(1,503)	10,552	Cultural & Related Services	16,335	(1,942)	14,393	
24,500	(2,345)	22,155	Environmental Services	22,460	(2,852)	19,608	
21,988	(6,095)	15,893	Roads & Transport Services	24,404	(5,844)	18,560	
8,295	(3,323)	4,972	Planning & Development Services	8,661	(4,376)	4,285	
87,375	(16,022)	71,353	Social Work	84,144	(14,947)	69,197	
11,283	(3,000)	8,283	Central Services	8,439	(1,434)	7,005	
2,445	-	2,445	Non-Distributed Costs	685	-	685	
321,033	**(68,730)**	**252,303**	**Services provided by the Council**	**321,892**	**(69,370)**	**252,522**	
321,033	**(68,730)**	**252,303**	**Net Cost of Services**	**321,892**	**(69,370)**	**252,522**	
		(290)	Roads Trading Operation (Surplus)/Deficit (External)			(165)	8
			Other Operating Expenditure				
		(785)	(Gain)/Loss on Disposal of Assets			288	
			Financing & Investment Income and Expenditure				
		11,908	Interest Payable & Similar Charges			11,806	29
		(159)	Interest Receivable & Similar Income			(48)	
		8,389	Net Interest Expense on the Net Defined Benefit Liability			8,973	20
			Taxation and Non-Specific Grant Income				
		(176,318)	Revenue Support Grant			(175,625)	
		(28,503)	Non-Domestic Rates Pool for Scotland			(31,013)	
		(45,241)	Council Tax			(46,149)	
		(14,868)	Capital Grants and Contributions			(20,768)	28
		6,436	**(Surplus)/Deficit on Provision of Services**			**(179)**	

Comprehensive Income and Expenditure Statement

Restated 2013/14				2014/15			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
		6,436	**(Surplus)/Deficit on Provision of Services**			**(179)**	
		(5,357)	(Surplus)/Deficit on revaluation of Non Current Assets			96	
		(2)	Any Other (Gains) Or Losses			7	
		(5,335)	Actuarial (gains)/losses on pension assets/liabilities			(44,848)	
		(10,694)	**Other Comprehensive Income and Expenditure**			(44,745)	
		(4,258)	**Total Comprehensive Income and Expenditure**			**(44,924)**	

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'.

2013/14 £'000		2014/15 £'000	Notes
	Property Plant and Equipment		
291,628	Other Land and Buildings	290,444	12
14,125	Vehicle, Plant, Furniture & Equipment	14,621	
83,294	Infrastructure	86,483	
6,721	Surplus Assets	4,730	
18,452	Assets Under Construction	26,976	
997	Heritage Assets	1,014	13
365	Intangible Assets	295	14
4,593	Long Term Debtors	5,223	29
420,175	**Long Term Assets**	**429,786**	
-	Short Term Investments	52	
922	Inventories	966	24
32,160	Short Term Debtors	38,219	30
(8,570)	less Bad Debt Provision	(8,838)	
13,692	Cash and Cash Equivalents	14,997	34
38,204	**Current Assets**	**45,396**	
(3,390)	Short Term Borrowing	(3,243)	29
(47,517)	Short Term Creditors	(49,026)	
(2,599)	Provisions	(1,299)	25
(53,506)	**Current Liabilities**	**(53,568)**	
(171,895)	Long Term Borrowing	(172,076)	29
(55,873)	Deferred Liabilities	(54,330)	
(615)	Due to Trust Funds and Common Good	(517)	
-	Provisions	(3,809)	25
(4,699)	Capital Grants Receipts in Advance	(6,493)	
(233,082)	**Long Term Liabilities**	**(237,225)**	
171,791	**Net Assets excluding pension liability**	184,389	
(198,398)	Pension Liability	(166,072)	20
(26,607)	**Net Assets/(Liabilities) including pension liability**	**18,317**	

Balance Sheet

2013/14 £'000	Financed By:	2014/15 £'000	Notes
	Useable Reserves		
(6,923)	Capital Fund	(7,552)	31
(17,136)	General Fund Balance	(18,991)	
(300)	Property Maintenance Fund	(39)	
(1,361)	Insurance Fund	(1,314)	
	Unusable Reserves		
(91,771)	Capital Adjustment Account	(103,407)	31
5,601	Financial Instruments Adjustment Account	5,395	
(68,361)	Revaluation Reserve	(65,671)	
198,398	Pension Reserve	166,072	
8,460	STACA Statutory Mitigation Account	7,190	
26,607	**Total Reserves**	**(18,317)**	

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on the 29 September 2015.

David Robertson CPFA
Chief Financial Officer
29 September 2015

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.

2013/14 £'000		2014/15 £'000	2014/15 £'000	Notes
6,436	**Net (Surplus) or deficit on the provision of services**	**(179)**		
(41,096)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(34,144)		32
13,891	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	19,201		32
(20,769)	**Net Cash Flows From Operating Activities**		**(15,122)**	
	Investing Activities			
27,100	Purchase of PP&E, investment property and intangible assets	32,018		
(1,169)	Proceeds from PP&E, investment property and intangible assets	(745)		
(4,995)	Purchase/(Disposal) of short & long term investments	52		
(16,443)	Other Items which are Investing Activities	(21,627)		
4,493	**Net Cash Flows from Investing Activities**		**9,698**	
	Financing Activities			
-	Cash received from loans & other borrowing	(219)		
1,880	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,921		
6,136	Repayments of short and long term borrowing	167		
461	Other items which are financing activities	2,250		
8,477	**Net Cash Flows from Financing Activities**		**4,119**	
(7,799)	**Net (Increase) or Decrease in Cash and Cash Equivalents**		**(1,305)**	
5,893	Cash and Cash Equivalents at the beginning of the reporting period		13,692	
13,692	Cash and Cash Equivalents at the end of the reporting period		14,997	34
(7,799)	Movement		**(1,305)**	

Accounting Policies

General Principles

The Annual Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15, 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.

Accounting Polices

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.

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 20 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 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 Polices

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.

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.

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-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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 indeterminable 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.

Accounting Polices

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.

Investment properties are measured initially at cost and subsequently at fair value, 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.

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.

Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used — the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Accounting Polices

- Corporate and Democratic Core — costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs — the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in Service Reporting Code of Practice (SerCop) and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on continuing services.

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.

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.

Accounting Polices

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.

- 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.

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.

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.

Redemption of Debt and Interest Charges

The Council administers a Loans Fund as required by Schedule 3 to the Local Government (Scotland) Act 1975. Repayments of principal to the Fund are charged over the appropriate borrowing period, utilising an annuity type method. Interest charges are made in accordance with the average rate paid by the Loans Fund and are calculated on the basis of advances outstanding at the commencement of the financial year and the equated monthly net capital expenditure during the year. All interest calculations, including those relating to interest on revenue balances, are in accordance with the recommendations of LASAAC.

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

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, there has been no first time adoption of Accounting Standards.

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

The following Adopted IFRSs 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.

IFRS13 Fair Value Measurement

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.

- Public Private Partnerships (PPP) – The Council is deemed to control the services provided under the agreement for the provision of educational establishments in accordance with IFRC12. The Council controls the services provided under the scheme and ownership of the schools will pass to the Council at the end of the contract. The schools are therefore recognised as assets on the Council's balance sheet.

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 Segmental Reporting

The Code requires that Councils analyse financial performance of their operations in the Comprehensive Income and Expenditure Statement using the service analysis included in the Service Reporting Code of Practice.

However, it may be more relevant to review financial performance according to how the authority has been managed, with information corresponding with that used by management in making decisions.

The income and expenditure of the Council's principle departments, which has been used by management in making decisions, can be summarised by subjective level as shown below:

There have been presentational changes in 2014/15 in accordance with the organisational restructure and therefore the 2013/14 figures have been restated in order to aid comparison between current and prior year.

Various items are not reported to management or included in Net Cost of Services and these are year end accounting adjustments such as IAS19 and depreciation etc. There is a difference in the income figures between the department reconciliation and the CI&ES; this is due to the fact that CI&ES only reports external income.

Departmental Income and Expenditure 2014/15

	Chief Executive £'000	People £'000	Place £'000	Other £'000	Total £'000
Employee Costs	18,936	99,023	30,984	1,206	150,149
Premises Costs	2,297	9,162	5,703	2,218	19,380
Transport Costs	404	6,993	17,030	2	24,429
Supplies & Services Costs	7,207	12,117	10,765	6,853	36,942
Third Party Payments	7,397	53,885	3,845	660	65,787
Transfer Payments	3	992	-	30,372	31,367
Support Services	23	913	447	92	1,475
Capital Charges	90	-	25	19,244	19,359
Income	(7,552)	(19,435)	(32,991)	(31,203)	(91,181)
	28,805	163,650	35,808	29,444	257,707

Reconciliation to Subjective Analysis 2014/15

The reconciliation of departmental Income and Expenditure to Net Cost of Services and the (Surplus)/Deficit on the provision of services in the Comprehensive Income and Expenditure Statement (CI&ES) is set out below:

	Departmental Analysis £'000	Amounts not in Net Cost of Services £'000	Not reported to Management £'000	Not included in CIES £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Employee Costs	150,149	165	2,296	-	152,610	8,973	161,583
Premises Costs	19,380	-	273	-	19,653	-	19,653
Transport Costs	24,429	-	(56)	-	24,373	-	24,373
Supplies & Services Costs	36,942	(5,550)	(936)	-	30,456	-	30,456
Third Party Payments	65,787	(4,795)	-	-	60,992	-	60,992
Transfer Payments	31,367	-	-	-	31,367	-	31,367
Support Services	1,475	-	23,720	-	25,195	-	25,195
Capital Charges	19,359	(10,095)	22,633	(9,140)	22,757	12,093	34,850
Income	(91,181)	20	(23,720)	-	(114,881)	(273,767)	(388,648)
	257,707	(20,255)	24,210	(9,140)	252,522	(252,701)	**(179)**

The total of £0.179m refers to the Surplus on Provision of Services as per the Comprehensive Income and Expenditure Statement on page 41.

Notes to the Core Financial Statements

Departmental Income and Expenditure 2013/14

	Chief Executive £'000	People £'000	Place £'000	Other £'000	Total £'000
Employee Costs	17,537	99,917	31,104	1,220	149,778
Premises Costs	2,238	9,222	3,766	2,189	17,415
Transport Costs	420	6,936	17,002	3	24,361
Supplies & Services Costs	5,339	7,252	10,062	7,046	29,699
Third Party Payments	6,100	56,643	3,446	521	66,710
Transfer Payments	2	958	-	30,130	31,090
Support Services	(1,553)	599	1,763	77	886
Capital Charges	40	-	48	19,765	19,853
Income	(2,152)	(19,984)	(32,085)	(31,012)	(85,233)
	27,971	161,543	35,106	29,939	254,559

Reconciliation to Subjective Analysis 2013/14

	Departmental Analysis £'000	Amounts not in Net Cost of Services £'000	Not reported to Management Restated £'000	Not included in CIES £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Employee Costs	149,778	290	5,475	-	155,543	8,389	163,932
Premises Costs	17,415	-	(160)	-	17,255	-	17,255
Transport Costs	24,361	-	(25)	-	24,336	-	24,336
Supplies & Services Costs	29,699	(5,829)	(8)	-	23,862	-	23,862
Third Party Payments	66,710	(4,844)	-	-	61,866	-	61,866
Transfer Payments	31,090	-	-	-	31,090	-	31,090
Support Services	886	-	22,230	-	23,116	-	23,116
Capital Charges	19,853	(10,615)	22,589	(9,148)	22,679	11,124	33,803
Income	(85,233)	19	(22,230)	-	(107,444)	(265,380)	(372,824)
	254,559	(20,979)	27,871	(9,148)	252,303	(245,867)	**6,436**

The total of £6.436m refers to the Deficit on Provision of Services as per the Comprehensive Income and Expenditure Statement on page 41.

Notes to the Core Financial Statements

Note 6 Acquired and Discontinued Operations

There were no acquired or discontinued operations in the 2014/15 financial year.

Note 7 Prior Year Adjustments

There have been prior year adjustments made in the balance sheet for Property, Plant & Equipment (see Note 12).

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:

2013/14 £'000		2014/15 £'000	3 Year Cumulative £'000
(11,565)	Turnover for the Year	(19,203)	(52,538)
(585)	(Surplus) / Deficit	(541)	(1,359)

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 including West Linton Primary School
- A wide range of external contracts for the private sector.

SBc Contracts employs 45 manual workers and 15 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 2014/15 SBc Contracts recorded an annual surplus of £0.541m against a revised budget target of a £0.655m surplus.

In 2014/15 turnover increased by £7.6m, or 66%, to £19.2m. This was as a result of additional workload associated with the Border Railway, Galashiels and Selkirk Flood prevention schemes, Kelso Townscape project and the new Kelso CRC. Of the total turnover, £10.8 million, or 56.25%, was generated by non Scottish Borders Council work, an increase of £5.66 million, 109.1% year on year, principally relating to the new Borders Railway. SBc Contracts continues to contribute strongly to the local economy by providing sub-contracted work and plant/vehicle hires to the value of £7.9 million during 2014/15. Despite the increase in Turnover, the Surplus fell by £0.044million to £0.541m, compared to the previous year as increased competition led to lower margins. Within the overall £0.541 million surplus generated in 2014/15, £0.165 million was generated from external work and £0.376 million was generated on 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 2014/15 SBc Contracts recorded a surplus in each of the three years and generated a cumulative total surplus of £1.359 million.

Notes to the Core Financial Statements

Note 9 Agency Work

The Council acts as an intermediary for Scottish Water, collecting money on their behalf. In 2014/15 Scottish Borders Council received £0.358m (2013/14 £0.322m) in commission from Scottish Water as part of the agency agreement.

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 highlighted that during 2014-15 the Council commissioned works and services totalling £252k from a business in which a Councillor had declared an interest. Contracts were entered into in full compliance with the Council`s standing orders and the Councillors` Code of Conduct. The Remuneration Report shows the total allowances paid to senior members in 2014/15. 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 2014/15, the Scottish Borders Council Pension Fund had an average balance of £6.603 m (2013/14: £6.081m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.022m (2013/14: £0.022m). In addition the Council charged the Pension Fund £0.321m in respect of expenses incurred in administering the Fund.

	2013/14	**2014/15**
Due to/(from) the Scottish Borders Council Pension Fund	£0.031m	£(0.136)m

The Council provided routine material financial assistance to other bodies in 2014/15 as follows:

- Borders Sport and Leisure Trust £1.387m
- Jedburgh Leisure Facilities Trust £0.121m
- VisitScotland £0.114m

Notes to the Core Financial Statements

In addition the Council was engaged in the following areas of joint working with NHS Borders:

Resource Transfer – a total of £2.530m was transferred from NHS Borders and utilised as follows:

Children's Services	£0.105m
Older People	£1.282m
Adults with Learning Difficulties	£0.968m
People with Mental Health Needs	£0.126m
Support Services	£0.049m

Other funding from NHS Borders in 2014/15 to support services are:

Older people	£0.152m
Adults with Learning Difficulties	£1.020m
People with Mental Health Needs	£0.331m
People with Physical Difficulties	£0.330m
Other Support Services	£0.113m
Children's Services	£0.016m

Borders Ability Equipment Store

The Store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £0.685m in 2014/15 with a contribution from the NHS Borders of £0.263m.

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 2014/15 and received £0.12m capital repayment from the LLP during the same period. The Council paid £1.32m in respect of advances to Bridge Homes LLP during 2014/15 and received no capital repayment from the LLP during 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.

Note 11 Audit Remuneration

In 2014/15 the agreed audit fee for the year was £0.297m in respect of services provided by KPMG (2013/14 £0.275m). This amount includes fees payable to Audit Scotland and covers the audit of both Scottish Borders Council's Annual Accounts and those of its subsidiaries.

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2014/15

	Property Plant & Equipment						
	Other Land & Buildings £'000	VPFE * £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Heritage Assets	Total Assets £'000
Gross book value (GBV) at 31 March 2014	**309,936**	**50,201**	**152,741**	**18,452**	**6,943**	**997**	**539,270**
Prior Period adjustment	**(52)**	**-**	**-**	**-**	**180**	**-**	**128**
Revised Gross book value (GBV) at 31 March 2014	**309,884**	**50,201**	**152,741**	**18,452**	**7,123**	**997**	**539,398**
Acquisitions & Recognition in the year	7,461	6,713	6,311	13,696	12	17	**34,210**
Transfers between categories	1,437	6	3,069	(3,069)	(1,437)	-	**6**
Revaluations	-	-	-	-	187	-	**187**
Impairments	(556)	(523)	-	(2,103)	(721)	-	**(3,903)**
Disposals	(763)	(856)	(3)	-	(298)	-	**(1,920)**
Gross book value (GBV) at 31 March 2015	**317,463**	**55,541**	**162,118**	**26,976**	**4,866**	**1,014**	**567,978**
Cumulative depreciation at 31 March 2014	**(18,308)**	**(36,076)**	**(69,447)**	**-**	**(222)**	**-**	**(124,053)**
Prior Period adjustment	**49**	**(1)**	**(3)**	**-**	**(180)**	**-**	**(135)**
Revised Cumulative depreciation at 31 March 2014	**(18,259)**	**(36,077)**	**(69,450)**	**-**	**(402)**	**-**	**(124,188)**
Depreciation for the year	(8,667)	(5,668)	(6,185)	-	(141)	-	**(20,661)**
Transfers between categories	(152)	-	-	-	152	-	**-**
Revaluations	-	-	-	-	152	-	**152**
Impairments	21	-	-	-	79	-	**100**
Disposals	38	825	-	-	24	-	**887**
Cumulative depreciation at 31 March 2015	**(27,019)**	**(40,920)**	**(75,635)**	**-**	**(136)**	**-**	**(143,710)**
Net book value at 31 March 2015	**290,444**	**14,621**	**86,483**	**26,976**	**4,730**	**1,014**	**424,268**
Net book value at 31 March 2014	**291,628**	**14,125**	**83,294**	**18,452**	**6,721**	**997**	**415,217**
Prior Period adjustment	**(3)**	**(1)**	**(3)**	**0**	**0**	**0**	**(7)**
Revised Net book value at 31 March 2014	**291,625**	**14,124**	**83,291**	**18,452**	**6,721**	**997**	**415,210**

* VPFE – Vehicles, Plant, Furniture and Equipment

The Council had no investment properties in 2014/15.

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.

Negative revaluations are shown within the stated figures for impairment. In 2014/15 this amounted to a NBV of £0.427m.

Of the change in cost shown within revaluations the net amount of £0.412m was charged to the Revaluation Reserve (13/14 £9.967m), and £0.073m written back to the CIES (13/14 £0).
For net impairments £3.373m was charged to the CIES (13/14 £3.681m) and £0.430m charged to the Revaluation Reserve (£4.610m in 13/14)

Comparative Movements in 2013/14

	Property Plant & Equipment						
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Heritage Assets	Total Assets £'000
Gross book value (GBV) at 31 March 2013	**298,105**	**47,981**	**144,172**	**13,819**	**7,941**	**982**	**513,000**
Acquisitions & Recognition in the year	3,833	5,159	7,794	11,779	184	15	**28,764**
Transfers between categories	6,019	(586)	766	(7,146)	806	-	**(141)**
Revaluations	8,922	-	9	-	250	-	**9,181**
Impairments	(6,478)	(440)	-	-	(1,727)	-	**(8,645)**
Disposals	(465)	(1,913)	-	-	(511)	-	**(2,889)**
Gross book value (GBV) at 31 March 2014	**309,936**	**50,201**	**152,741**	**18,452**	**6,943**	**997**	**539,270**
Cumulative depreciation at 31 March 2013	**(10,808)**	**(32,761)**	**(63,610)**	**-**	**(369)**	**-**	**(107,548)**
Depreciation for the year	(8,562)	(5,163)	(5,837)	-	(292)	-	**(19,854)**
Transfers between categories	-	5	-	-	136	-	**141**
Revaluations	696	-	-	-	89	-	**785**
Impairments	216	-	-	-	137	-	**353**
Disposals	150	1,843	-	-	77	-	**2,070**
Cumulative depreciation at 31 March 2014	**(18,308)**	**(36,076)**	**(69,447)**	**-**	**(222)**	**-**	**(124,053)**
Net book value at 31 March 2014	**291,628**	**14,125**	**83,294**	**18,452**	**6,721**	**997**	**415,217**
Net book value at 31 March 2013	**287,297**	**15,220**	**80,562**	**13,819**	**7,572**	**982**	**405,452**

Notes to the Core Financial Statements

Capital Commitments

As at 31 March 2015 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 £20.0m. These commitments can be categorised as follows:-

	Capital Commitments as at 31 March 2015 £'000
Place	18,604
People	310
Chief Executive's	1,119
Total	**20,033**

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 2014/15 the fixed assets relating to Common Good & Trusts 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 and surplus 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. 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.

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 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
- 1 April 2011 – Social Work, Resources and Surplus Properties
- 1 April 2010 – Technical Services and Surplus Properties

Technical Services Properties will be revalued as at 1 April 2015 with the resulting adjustments incorporated into the 2015/16 accounts of the Council.

	Property Plant & Equipment						
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Heritage Assets £'000	Total Assets £'000
Carried at Historical Cost	75,006	55,541	162,109	26,726	(1,044)	1,014	**319,352**
New Certified Valuation							
1st April 2014	-	-	-	-	339	-	**339**
1st April 2013	9,618	-	9	-	340	-	**9,967**
1st April 2012	21,643	-	-	-	389	-	**22,032**
1st April 2011	2,613	-	-	-	857	-	**3,470**
1st April 2010	2,019	-	-	-	122	-	**2,141**
1st April 2009	23,285	-	-	-	-	-	**23,285**
1st April 2008	151,706	-	-	250	3,801	-	**155,757**
1st April 2007	31,573	-	-	-	62	-	**31,635**
Gross book value (GBV) at 31 March 2015	**317,463**	**55,541**	**162,118**	**26,976**	**4,866**	**1,014**	**567,978**

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 31March 2013	161	771	50	982	982
Additions	-	-	15	15	15
Cost or Valuation at 31March 2014	161	771	65	997	997
Additions			17	17	17
Cost or Valuation at 31March 2015	161	771	82	1,014	1,014

Two monuments were identified as common good assets in 2014/15. These were put through as disposals with a NBV of £0. 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.

2013/14 £'000		2014/15 £'000
3,160	**Gross book value (GBV) at 31 March**	3,396
2	**Prior Period Adj**	-
234	Expenditure in the year	166
-	Transfers	(6)
-	Impairments	(6)
3,396	**Gross book value (GBV) at 31 March**	**3,550**
(2,892)	**Cumulative amortisation at 31 March**	(3,031)
(139)	Amortisation for the year	(224)
-	Transfers	-
(3,031)	**Cumulative amortisation at 31 March**	**(3,255)**
365	**Net book value at 31 March**	**295**

There were no disposals or revaluations of intangible assets in 2014/15.

Note 15 Assets Held for Sale

The Council had no assets held for sale in 2013/14 or 2014/15.

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 2015 are as follows:

	Repayment of liability and Service Charge	Interest	Total
	£'000	£'000	£'000
Payable in 2015/16	5,520	2,776	8,296
Payable within two to five years	24,318	10,260	34,578
Payable within six to ten years	37,426	10,888	48,314
Payable within eleven to fifteen years	46,257	8,406	54,663
Payable within sixteen to twenty years	56,604	5,242	61,846
Payable within twenty one to twenty five years	49,392	1,121	50,513
Total	**219,517**	**38,693**	**258,210**

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:

2013/14 £'000		2014/15 £'000
	Net Asset Value	
54,395	Land and buildings	53,079
25	Plant and equipment	-
54,420		**53,079**

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 2013/14 £'000	Plant & Equipment 2013/14 £'000		Land & Buildings 2014/15 £'000	Plant & Equipment 2014/15 £'000
		Finance Lease Liabilities		
2,190	7	Not later than 1year	1,812	-
6,637	-	Later than 1year and not later than 5 years	6,538	-
49,236	-	Later than 5 years	47,792	-
		Finance Costs Payable in Future Years		
2,867	1	Not later than 1year	2,776	-
10,548	-	Later than 1year and not later than 5 years	10,260	-
27,727	-	Later than 5 years	25,657	-
99,205	**8**	**Minimum Lease Payments**	**94,835**	**-**

The contingent rental figure, recognised as an expense in 2014/15 in respect of the Council's PPP arrangements, was £0.82m (2013/14 £0.7m).

Operating Leases

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

2013/14 £'000		2014/15 £'000
43	Not later than 1year	109
43	Later than 1year and not later than 5 years	60
86	Total	**169**

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:

2013/14 £'000		2014/15 £'000
296	Not later than one year	1,323
908	Later than one year and not later than five years	1,701
6,560	Later than five years	6,543
7,764	**Total**	**9,567**

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.

2013/14 £'000		2014/15 £'000	
257,739	Opening capital financing requirement		258,448
	Capital Investment		
1,592	Consent to Borrow - National Housing Trust	986	
28,128	Property , plant and equipment	31,358	
1,165	Asset Decommissioning Provision	2,855	
234	Intangible assets	166	35,365
	Sources of Finance		
(2,430)	Capital Receipts	(356)	
(15,798)	Government grants and other contributions	(22,240)	
(464)	NHT Repayment of Principal	(112)	
(11,718)	Loans fund repayments	(10,818)	(33,526)
258,448	**Closing Capital Financing Requirement**		**260,287**

Notes to the Core Financial Statements

2013/14 £'000		2014/15 £'000
	Explanation of Movements in Year	
-	Increase in underlying need to borrow (supported by government financial assistance)	-
709	Increase/(Decrease) in underlying need to borrow (not supported by government financial assistance)	1,839
709	**Increase in capital financing requirement**	**1,839**

Note 19 Termination Benefits

During 2014/15 the Council terminated, or had agreed to terminate by the Balance Sheet date, the contracts of 40 employees, incurring liabilities of £0.626m - 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 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 is contracted out of the State Second Pension. The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions. From 1st April 2015 The Local Government Pension Scheme will be a funded defined benefit career average salary scheme.

The Teachers' Pension Scheme. This 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.

2013/14 £'000	Comprehensive Income and Expenditure Statement	2014/15 £'000
	Cost of Services	
16,848	Current Service Costs	16,394
296	Past Service Costs, including curtailments	1,094
	Financing and Investment Income and Expenditure	
8,389	Net Interest Expense	8,973
25,533	**Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services**	**26,461**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:-	
(7,573)	Return on plan assets (excluding the amount included in the net interest expense)	(37,379)
15,159	Actuarial gains and losses arising on changes in demographic assumptions	(35,030)
(12,569)	Actuarial gains and losses arising on changes in financial assumptions	75,272
(353)	Other	(47,711)
(5,336)	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**(44,848)**
	Movement in Reserves Statement	
25,533	Reversal of net charges made for retirement benefits in accordance with the Code	12,522
	Actual amount charged against the General Fund Balance for pensions in the year	
11,609	Employers' contributions payable to the scheme	12,517
1,440	Retirement benefits payable to pensioners	1,422

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:-

2013/14 £'000	Pension Assets and Liabilities Recognised in the Balance Sheet	2014/15 £'000
631,848	Present value of the defined benefit obligation	651,085
(433,450)	Fair value of plan assets	(485,013)
198,398	Sub total	166,072
198,398	**Net liability arising from defined benefit obligation**	**166,072**

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 £166.1m has a substantial effect on the net worth of the Council as recorded in the Balance Sheet, reducing the overall net asset value to £18.3m.

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

2013/14 £'000	Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets	2014/15 £'000
409,373	**Opening Fair Value of Scheme Assets**	433,450
17,986	Interest Income	19,477
	Remeasurement (gains) and losses:-	
7,573	Return on plan assets, excluding the amount included in the net interest expense	37,379
(254)	Other	(4,012)
13,049	Employer Contributions including unfunded pensions	13,939
3,923	Contributions by Scheme Participants	3,994
(18,200)	Estimated Benefits Paid	(19,214)
433,450	**Closing Fair Value of Scheme Assets**	**485,013**

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

2013/14 £'000	Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligations)	2014/15 £'000
600,623	**Opening Defined Benefit Obligation**	631,848
16,848	Current Service Cost	16,394
26,121	Interest Cost	28,124
3,923	Contributions by Scheme Participants	3,994
	Remeasurement (gains) and losses:-	
15,159	Actuarial (gains)/losses arising from changes in demographic assumptions	(35,030)
(12,569)	Actuarial (gains)/losses arising from changes in financial assumptions	75,272
(353)	Other	(51,397)
296	Past Service Cost	1,094
(16,760)	Benefits Paid	(17,792)
(1,440)	Unfunded Pension Payments	(1,422)
631,848	**Closing Defined Benefit Obligation**	**651,085**

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 2015.

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.

2013/14 £'000	Local Government Pension Scheme assets comprised:	2014/15 £'000
13,003	Cash and cash equivalents	**3,076**
	Equity Instruments	
	By industry type	
52,748	Consumer	46,633
34,167	Manufacturing	42,355
18,084	Energy and utilities	8,780
36,584	Financial Institutions	53,965
9,070	Health and Care	8,848
15,687	Information Technology	31,398
166,340		**191,979**
	Bonds	
	By sector	
34,676	UK Corporate	44,244
13,003	UK Government	8,182
47,679	Other	**52,426**
	Investment Funds - Quoted in Active Market	
55,734	Managed Fund - UK Equities Passive	58,573
58,449	Managed Fund - Global Equities	68,784
1,220	Managed Fund - Smaller Companies	1,476
17,338	Managed Fund - Property	26,098
132,741		**154,931**
	Investment Funds - Not Quoted	
73,687		**82,601**
433,450	**Total Assets**	**485,013**

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

2013/14 £'000	Fair Value of Scheme Assets	2014/15 £'000
	Equity instruments:	
	By company size	
166,340	Large capitalisation	**191,979**

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. 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:

2013/14	Basis for Estimating Assets and Liabilities	2014/15
	Long-term expected rate of return on assets in the scheme	
4.5%	Equity investments	3.3%
3.0%	Gilts	2.0%
8.0%	Other bonds	9.0%
4.0%	Property	5.0%
3.0%	Cash	1.0%
17.0%	Single Net Interest Cost	17.0%
	Mortality assumptions	
	- longevity at 65 for current pensioners (years)	
22.50	Men	22.70
24.80	Women	23.60
	- longevity at 65 for future pensioners (years)	
24.70	Men	24.90
27.10	Women	25.90
3.6%	Rate of inflation - RPI	3.2%
2.8%	Rate of inflation - CPI	2.4%
1.0%	Rate of increase in salaries	1.0%
2.8%	Rate of increase in pensions	2.4%
4.5%	Rate for discounting scheme liabilities	3.3%

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

2013/14		Category Analysis of the Scheme Assets as at 31 March 2015	2014/15	
%	£'000		%	£'000
65	281,743	Equities	66	320,811
3	13,003	Gilts	2	8,182
8	34,676	Other Bonds	9	44,244
4	17,338	Property	5	26,099
3	13,003	Cash	1	3,076
17	73,687	Multi-Asset Fund	17	82,601
100	**433,450**	**Total**	**100**	**485,013**

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.

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%)	639,452	662,942
Adjustment to long term salary increase (increase or decrease 0.1%)	652,682	649,496
Adjustment to pension increases and deferred revaluation (increase or decrease 0.1%)	661,439	640,928
Adjustment to mortality rating assumption (increase or decrease 1 year)	627,882	674,450

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 2014/15 the Council paid £6.470m to teachers' pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay (£6.543m and 14.9% in 2013/14). 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 2014/15 these amounted to £0.623m representing 1.43% of pensionable pay (£0.618m and 1.41% in 2013/14).

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 15 employers in the Scottish Borders. As at 31 March 2015 there were 9,797 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

2013/14 £'000		2014/15 £'000
952	**Balance outstanding at start of year**	**923**
3,521	Purchases	3,549
(3,569)	Recognised as an expense in the year	(3,523)
19	Written back balances	17
923	**Balance outstanding at year-end**	**966**

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 (Restated) £'000	Voluntary Severance / Early Retirement £'000	Carbon Reduction Commitment Energy Efficiency Scheme £'000	Police Potential Clawback £'000	Asset Decommissioning £'000	Total £'000
Balance at 1 April 2014	**(70)**	**(288)**	**(761)**	**(207)**	**(108)**	**(1,165)**	**(2,599)**
Additional charges to provisions	(10)	-	(219)	(297)	-	(2,855)	**(3,381)**
Payments made or released	20	32	638	182	-	-	**872**
Balance at 31 March 2015	**(60)**	**(256)**	**(342)**	**(322)**	**(108)**	**(4,020)**	**(5,108)**

Within 12 Months	(60)	(256)	(342)	(322)	(108)	(211)	**(1,299)**
Over 12 months	-	-	-	-	-	(3,809)	**(3,809)**
Total	**(60)**	**(256)**	**(342)**	**(322)**	**(108)**	**(4,020)**	**(5,108)**

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. A levy of 15% (£48,097) was paid by the Council during 2014/15 in respect of its share of claim liabilities. 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 £67,337 at the Balance Sheet date.

- 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 SBCares and Border Sport and Leisure Trust with regards to their admission to the Scottish Borders Pension Fund. Should either SBCares or BSLT be unable to meet their pension obligations, Scottish Borders Council as guarantor would be liable to do so.

Note 27 Contingent Assets

At 31 March 2015 the Council does not have any contingent assets.

Note 28 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Account in 2014/15.

2013/14 £'000		2014/15 £'000
	Credited to Taxation and Non Specific Grant Income	
(10,169)	General Capital Grant	(9,677)
(529)	Borders Railway	(3)
(3,619)	Other Grants	(10,929)
(551)	Developer Contributions	(159)
(14,868)	**Total**	**(20,768)**
	Credited to Services	
(142)	Education & Lifelong Learning	(209)
(30,226)	General Fund Housing	(31,473)
(1)	Cultural & Related Services	(23)
(214)	Environmental Services	(586)
(1,585)	Social Work	(1,249)
(1,150)	Central Services	(1,819)
(33,318)		**(35,359)**

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

Financial Instruments - Balances

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

	Long-Term		Current	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
Loans and Receivables				
Short Term Investments	-	-	-	52
Cash and Cash Equivalents	-	-	13,692	14,997
Debtors	4,593	5,223	23,590	29,381
Total Loans and Receivables	**4,593**	**5,223**	**37,282**	**44,430**
Borrowings				
Financial Liabilities (principal amount)	(171,895)	(172,076)	(147)	-
Accrued interest	-		(3,243)	(3,243)
Total Borrowings	**(171,895)**	**(172,076)**	**(3,390)**	**(3,243)**
Other Liabilities				
PPP and finance lease liabilities	(55,873)	(54,330)	(2,197)	(1,812)
Bonds	-		(294)	(1,181)
Total other long-term liabilities	**(55,873)**	**(54,330)**	**(2,491)**	**(2,993)**
Creditors				
Short term creditors at amortised cost (excluding Other Liabilities)	-	-	(45,026)	(46,033)
Total Creditors	**-**	**-**	**(45,026)**	**(46,033)**

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 2014 £'000	%		31 March 2015 £'000	%
(44,263)	25	Bonds and Mortgages	(44,444)	25
(127,632)	73	Public Works Loan Board	(127,632)	73
(171,895)	**98**	**Long term borrowing (> 1 year)**	**(172,076)**	**98**
(3,390)	2	Short Term Borrowing repayable within 12 months	(3,243)	2
(175,285)	**100**	**Total Borrowing**	**(175,319)**	**100**

Notes to the Core Financial Statements

Analysis of Borrowing by Maturity.

2014 £'000		2015 £'000
(3,390)	Less than 1 year	(3,243)
(3)	Between 1 and 2 years	-
(1,791)	Between 2 and 7 years	(12,061)
(14,903)	Between 7 and 15 years	(4,834)
(155,198)	More than 15 years	(155,181)
(175,285)	**Total**	**(175,319)**

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

	2014/15		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Total £'000
Interest expense	11,806	-	11,806
Interest payable and similar charges	**11,806**	**-**	**11,806**
Interest Income	-	(48)	(48)
Interest and investment income	**-**	**(48)**	**(48)**
Net (gain) / loss for the year	**11,806**	**(48)**	**11,758**

	2013/14		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Total £'000
Interest expense	11,908	-	11,908
Impairment Losses	-	112	112
Interest payable and similar charges	**11,908**	**112**	**12,020**
Interest Income	-	(159)	(159)
Gains on derecognition	-	(435)	(435)
Interest and investment income	**-**	**(594)**	**(594)**
Net (gain) / loss for the year	**11,908**	**(482)**	**11,426**

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 2014		31 March 2015	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB debt	(130,350)	(187,033)	(130,350)	(187,033)
Other debt	(43,690)	(52,866)	(44,969)	(52,845)
Total debt	**(174,040)**	**(239,899)**	**(175,319)**	**(239,878)**
Creditors	(47,517)	(47,517)	(49,026)	(49,026)
Total financial liabilities	**(221,557)**	**(287,416)**	**(224,345)**	**(288,904)**

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.

Notes to the Core Financial Statements

	31 March 2014		31 March 2015	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and Receivables				
Short Term Investments	-	-	52	52
Cash and Cash Equivalents	13,692	13,692	14,997	14,997
Debtors	23,590	23,590	29,381	29,381
Total loans and receivables	**37,282**	**37,282**	**44,430**	**44,430**

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.

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 2014/15 which incorporates the prudential indicators was approved by the Council on 6 February 2014. The key issues within the strategy were:

- The Authorised Limit for 2014/15 was set at £340.6m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £279.8m. 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 £279.8m and £97.9m 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%
1to 2 years	0%	20%
2 to 5 years	0%	20%
5 to 10 years	0%	20%
Over 10 years	20%	100%

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. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outline above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Council's website.

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 2014/15 was approved by the Council on 6 February 2014 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 2015 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 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 6 February 2014:

	Approved Minimum Limits £000	Approved Minimum Limits %	Approved Maximum Limits £000	Approved Maximum Limits %	Actual 31 March 2014 £000	Actual 31 March 2015 £000
Less than one year			50,220	20	3,390	3,243
Between one and two years			50,220	20	3	0
Between two and seven years			50,220	20	1,791	12,061
Between seven and fifteen years			50,220	20	14,903	4,834
More than fifteen years	50,220	20	251,100	100	155,198	155,181
Total					**175,285**	**175,319**

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. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Comprehensive Income and Expenditure Statement.

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.

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	(246)
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)	38,989

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.

Notes to the Core Financial Statements

Debtor and Creditor Analysis

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

Debtors

2013/14 £'000		2014/15 £'000
2,827	Central government bodies	2,463
364	Other local authorities	268
1,174	NHS bodies	1,696
132	Public Corporations and Trading Funds	64
27,663	Bodies External to General Government	33,728
32,160		**38,219**

Creditors

2013/14 £'000		2014/15 £'000
(7,342)	Central government bodies	(866)
(557)	NHS Bodies	(556)
(1,670)	Public Corporations and Trading Funds	(2,771)
(37,948)	Bodies External to General Government	(44,833)
(47,517)		**(49,026)**

Notes to the Core Financial Statements

Note 31 Movement in Reserves

A summary of all reserves movements are shown below:

	Balance as at 31 March 2014 £'000	Transfers between reserves and funds £'000	Gains or Losses for the Year £'000	Balance as at 31 March 2015 £'000
Usable Reserves				
General Fund Balances	(17,136)	(1,676)	(179)	(18,991)
Capital Fund	(6,923)	(629)	-	(7,552)
Property Maintenance Fund	(300)	261	-	(39)
Insurance Fund	(1,361)	47	-	(1,314)
Unusable Reserves				
Capital Adjustment Account	(91,771)	(11,643)	7	(103,407)
Financial Instruments Adjustment Account	5,601	(206)	-	5,395
Revaluation Reserve	(68,361)	2,594	96	(65,671)
Pensions Reserve	198,398	12,522	(44,848)	166,072
STACA Statutory Mitigation Acct	8,460	(1,270)	-	7,190
Total	**26,607**	**-**	**(44,924)**	**(18,317)**

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:

2013/14 Restated £'000	Analysis as at 31 March	2014/15 £'000
	Earmarked Reserves	
(1,274)	Education - Devolved School Management	(1,722)
	Specific Departmental Reserves	
(403)	Education	(811)
(669)	General Fund Housing Services	(284)
(149)	Environmental Services	(263)
(25)	Planning & Development Services	(236)
(966)	Social Work	(906)
(2,034)	Central Services	(1,770)
-	Treasury Reserve	(1,500)
(5,520)		(7,492)
(11,616)	Non-earmarked Reserve	(11,499)
(17,136)	**Total General Fund Reserve**	**(18,991)**

Notes to the Core Financial Statements

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

2013/14 £'000	Reconciliation to General Fund Surplus	2014/15 £'000
6,436	**Net (Surplus) or deficit on the provision of services**	**(179)**
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(19,854)	Depreciation	(20,662)
(3,681)	Impairment & Revaluation Loss through I & E	(3,373)
(139)	Amortisation of intangible assets	(224)
(12,484)	Movement in pension liability	(12,522)
785	Gain/Loss on carrying amounts of assets disposed	(288)
(30)	Net movement in inventories charged to I & E	44
(2,411)	Net movement in debtors charged to I & E	5,825
(2,760)	Net movement in creditors charged to I & E	(3,290)
(522)	Net movement in provisions charged to I & E	346
(41,096)		**(34,144)**
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
14,868	Capital grants received	20,768
(977)	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(1,567)
13,891		**19,201**
(20,769)	**Net Cash Outflow / (Inflow) from Operating Activities**	**(15,122)**

Notes to the Core Financial Statements

Note 33

Impairment Losses

During 2014/15 SBC recognised a net impairment loss of £3.809m (£8.291m in 2013/14). A net cost of £3.373m impairment 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:

2013/14 £'000		2014/15 £'000
66	Cash held by officers	65
1,723	Bank current accounts	3,332
11,903	Short term deposits	11,600
13,692	**Total**	**14,997**

Supplementary Financial Statements

Council Tax Income Account

2013/14 £'000	2013/14 £'000		2014/15 £'000	2014/15 £'000
	(56,885)	Gross Charges Levied		(57,337)
5,777		Less: Benefits	5,517	
5,777			5,517	
5,061		Discounts	5,078	
892		Provision for bad debts	631	
(86)		Miscellaneous	(38)	
	11,644			11,188
	(45,241)			**(46,149)**
	(45,241)	**Total Income Credited to the Comprehensive Income & Expenditure Statement**		**(46,149)**

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2014

Band	Number of Properties	Proportion	Band D Equivalent	Council Tax 2014/15 £
A	16,661	6/9	11,107	722.67
B	12,703	7/9	9,880	843.11
C	6,791	8/9	6,036	963.56
D	5,759	9/9	5,759	1,084.00
E	6,239	11/9	7,625	1,324.89
F	4,519	13/9	6,527	1,565.78
G	4,154	15/9	6,923	1,806.67
H	445	18/9	890	2,168.00
Total	**57,271**		**54,747**	
Less : Reductions for estimated discounts, exemptions, reliefs, rebates, etc. and non-collection			(12,702)	
Estimated net income from a Council Tax of £1 for 2014/15			**£42,045**	

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 2014/15 the Band D charges were £190.17 for water and £220.68 for waste water.

Supplementary Financial Statements

Non-Domestic Rate Income Account

2013/14 £'000	2013/14 £'000			2014/15 £'000	2014/15 £'000
	(37,557)	Gross Rates Levied & Contribution in Lieu			(37,295)
7,612		Less:	Reliefs and Other Deductions	8,343	
419			Write-offs of uncollectable debts & allowance for impairment	356	
-	8,031		Interest paid on overpaid rates	-	8,699
	(29,526)				(28,596)
	(112)	Net General Fund expenditure on discretionary reliefs			(127)
	(29,638)	**Net Non-Domestic Rate Income**			**(28,723)**
	76	Adjustment to Previous Years National Non-Domestic Rates			(353)
	(29,562)	**Contribution to National Pool**			**(29,076)**
	28,503	**Distribution received from National Pool**			31,013
	(28,503)	**Income Credited to the Comprehensive Income & Expenditure Statement**			**(31,013)**

Notes to the Non-Domestic Rate Income Account

Note 1 Rateable Subjects at 31 March 2015

Classification	Number	Rateable Value £'000
Shops	1,250	20,150
Public Houses	91	1,322
Offices including Banks	850	7,541
Hotels, Boarding Houses, etc	137	3,345
Industrial and Freight transport	1,805	22,707
Leisure, Entertainment, Caravan sites, etc	959	5,020
Garages and Petrol Stations	221	1,776
Cultural and Sporting	136	801
Education and Training	103	9,449
Public Service	434	4,659
Communications	7	17
Quarries, Mines, etc	12	339
Petrochemical	5	1,395
Religious	295	1,244
Health and Medical	100	3,899
Care Facilities	96	1,915
Other	560	1,937
Advertising	8	13
Undertakings	21	2,964
Total	**7,090**	**90,493**

Note 2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2014/15 was:
47.1p for properties with a rateable value up to £35,000
48.2p for properties with a rateable value above £35,000

Trust Funds

The Council is Trustee for a number of Trusts. Of these Trusts 77 are registered with the Office of the Scottish Charity Regulator (OSCR) as a single charity and the Council, in consultation with OSCR, registered three new charities during 2014. The new charities are SBC Welfare Trust, SBC Community Enhancement Trust and SBC Educational Trust. The Ormiston Trust and the Thomas Howden Wildlife Trusts remain currently as single Trusts registered with OSCR. All OSCR registered Trusts are subject to audit in-line with OSCR requirements and a full financial statement compliant with those requirements is published separately. The remaining 174 Trusts are currently unregistered with OSCR. The Comprehensive Income & Expenditure Statements and Balance Sheet below show the totals of the registered and unregistered Trusts.

The accounting policies applied are those detailed in pages 46 to 57.

The income on the Trust Funds represents both dividends from external investments now held in the Newton Real Return Fund following the implementation of the single investment strategy and interest earned on balances invested in the Council's Loans Fund. These balances are shown under Current Assets in the Balance Sheet below.

Comprehensive Income & Expenditure Statements

2013/14 Restated £'000		Charitable £'000	Other £'000	2014/15 Total £'000
	Income			
(48)	Dividends and Interest	(36)	(30)	(66)
(87)	Rents	-	(61)	(61)
(4)	Donations & Grants	-	(11)	(11)
-	Unrealised Gain on Investments	(25)	(44)	(69)
	Expenditure			
15	Administration	-	15	15
21	Grants to Beneficiaries	21	23	44
104	Depreciation	26	58	84
1	**(Surplus) / Deficit for the Year**	**(14)**	**(50)**	**(64)**
(774)	(Surplus) brought forward	(420)	(450)	(870)
(104)	Funding (brought forward/carried forward) to Revaluation Reserve	(26)	(58)	(84)
7	Transfer to Capital Reserve	148	44	192
(870)	(Surplus) carry forward	**(312)**	**(514)**	**(826)**

Trust Funds

Balance Sheet

2013/14 Restated £'000		Charitable £'000	Other £'000	2014/15 Total £'000
	Non-current Assets			
1,422	Land and Buildings	267	1,496	1,763
1,878	Investments	749	1,304	2,053
4	Long term Loan	-	2	2
	Current Assets			
179	Short Term Investments	35	93	128
36	Sundry Debtors	-	69	69
	Current Liabilities			
(6)	Sundry Creditors	(4)	(9)	(13)
3,513	**Net Assets**	**1,047**	**2,955**	**4,002**
	Financed by			
(870)	Revenue Reserve	(312)	(514)	(826)
(1,289)	Capital Reserve	(520)	(962)	(1,482)
(1,354)	Revaluation Reserve	(215)	(1,479)	(1,694)
(3,513)		**(1,047)**	**(2,955)**	**(4,002)**

Common Good Funds

The Council administers the Common Good Funds for eight towns within its area. The statements below give the income and expenditure for the year and the assets and liabilities at 31 March 2015, for each of the funds. The accounting policies applied are those as set out in pages 46 to 57.

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 2013/14 £'000		2014/15 Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Income									
(236)	Fees and Charges	-	-	(119)	-	-	(11)	(55)	(63)	(248)
(55)	Investment Income	-	-	(10)	(24)	(7)	(6)	(9)	(4)	(60)
(23)	Grant Income	(2)	(7)	(6)	(1)	(1)	(6)	(3)	(10)	(36)
(314)		**(2)**	**(7)**	**(135)**	**(25)**	**(8)**	**(23)**	**(67)**	**(77)**	**(344)**
	Expenditure									
155	Property Costs	2	-	106	-	-	11	12	39	170
171	Depreciation	23	12	68	12	43	11	46	76	291
56	Administrative Costs	2	2	11	3	2	10	8	10	48
154	Donations and Contributions	-	-	12	34	1	1	21	16	85
536		**27**	**14**	**197**	**49**	**46**	**33**	**87**	**141**	**594**
222	**(Surplus) / Deficit**	**25**	**7**	**62**	**24**	**38**	**10**	**20**	**64**	**250**
(793)	(Surplus) / Deficit brought forward	(22)	(25)	(80)	(157)	(26)	(33)	(82)	(154)	(579)
(171)	Funding (from)/to Revaluation Reserve	(23)	(12)	(68)	(12)	(43)	(11)	(46)	(76)	(291)
163	Transfer (from)/to Capital Reserve	-	20	(15)	65	(8)	7	54	81	204
(579)	**(Surplus)/Deficit carried forward**	**(20)**	**(10)**	**(101)**	**(80)**	**(39)**	**(27)**	**(54)**	**(85)**	**(416)**

Common Good Funds

Balance Sheets

Total 2013/14 £'000		Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
		2014/15								
	Non-current Assets									
7,067	Land & Buildings	3	313	3,675	488	864	1,028	914	3,312	10,597
23	Heritage Assets	-	-	3	-	19	-	2	1	25
2	Other Fixed Assets	-	-	-	-	-	-	-	-	-
2,177	**Investments**	-	21	377	955	259	211	390	137	2,350
102	**Long Term Loan to Third Party**	-	-	-	58	-	19	-	-	77
	Current Assets									
3	Sundry Debtors	-	-	7	-	-	6	1	6	20
0	Capital Advances to Loans Fund	-	-	-	-	-	-	-	-	-
488	Short Term Investments	20	10	134	29	39	7	60	90	389
-	Inventories	-	-	-	-	-	-	-	-	-
	Current Liabilities									
(120)	Sundry Creditors	-	-	(41)	(6)	-	(2)	(7)	(10)	(66)
9,742	**Net Assets**	**23**	**344**	**4,155**	**1,524**	**1,181**	**1,269**	**1,360**	**3,536**	**13,392**
	Financed by									
(579)	Revenue Reserve	(20)	(10)	(101)	(80)	(39)	(27)	(54)	(85)	(416)
(2,262)	Capital Reserve	-	(21)	(513)	(958)	(259)	(218)	(440)	(137)	(2,546)
(6,901)	Revaluation Reserve	(3)	(313)	(3,541)	(486)	(883)	(1,024)	(866)	(3,314)	(10,430)
(9,742)	**Total Reserves**	**(23)**	**(344)**	**(4,155)**	**(1,524)**	**(1,181)**	**(1,269)**	**(1,360)**	**(3,536)**	**(13,392)**

Notes to Common Good Funds

Capital Reserves

During the year there were a number of movements on the capital reserves which are shown below. The movements are the result of the realisation of gains on the sale of investments and recognition of unrealised gains through the valuations of the investments.

Total 2013/14 £'000		2014/15 Duns £'000	Galashiels £'000	Hawick £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
(2,009)	Balance at 1 April 2014	-	-	(515)	(861)	(258)	(204)	(373)	(51)	(2,262)
(493)	Realised (Gains)/Losses on Investments	-	-	-	-	-	-	-	-	-
(30)	Unrealised Gains on Investments	-	(1)	(13)	(32)	(9)	(7)	(13)	(5)	(80)
433	Rebalancing Capital/Revenue Reserves	-	-	15	(15)	8	(2)	(34)	(81)	(109)
(163)	Transfer from Revenue Reserve	-	(20)	-	(50)	-	(5)	(20)	-	(95)
(2,262)	Balance at 31 March 2015	**-**	**(21)**	**(513)**	**(958)**	**(259)**	**(218)**	**(440)**	**(137)**	**(2,546)**

Heritage Assets

This is the third year in which Heritage Assets have been recognised on the Balance Sheet and the movement on each of the funds is shown in the following table.

	Hawick £'000	Kelso £'000	Selkirk £'000	Peebles £'000
Cost or Valuation at 31 March 2014	3	19	1	-
Additions	-	-	-	2
Cost or Valuation at 31 March 2015	**3**	**19**	**1**	**2**

There were no disposals or revaluations of Heritage Assets in the last three years.

The inventories of Heritage Assets held by each Common Good Fund for former Burghs in the Borders are published annually as part of the financial reporting and monitoring to the public meetings of the Common Good Working Groups of Councillors.

Significant items include regalia and robes of office from the former Burghs and are made available for loan to Honorary Provosts and Chairpersons of Community Councils in the former Burghs for official occasions and to the Museum Service for public display.

Group Accounts

Introduction to the Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 (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 99 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

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 94 to 98. In addition, 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. The financial statements for Bridge Homes LLP are available from Council Headquarters.

Associates
Associate entities are those over which the Council has been deemed to exercise significant influence. The following bodies have been recognised as associates of Scottish Borders Council:

- Borders Sport and Leisure Trust
- Jedburgh Leisure Facilities Trust

Borders Sport and Leisure Trust
This organisation manages the delivery of a range of sport and leisure facilities at a number of locations throughout the Scottish Borders. 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 represented on the Board of Directors by three members. The percentage for consolidation is 45.7% based on the Council's contribution to incoming resources. Borders Sport and Leisure Trust's accounting period is to 31 March and, for the purposes of consolidation, the draft financial statements to 31 March 2015 have been used. The company's draft Statement of Financial Activities shows an operating deficit of £0.027m for the year to 31 March 2015 of which £0.012m (44.4%) has been included in the Group Accounts. The company's draft balance Sheet as at 31 March 2015 shows net assets of £1.797m of which £0.821m (45.7%) has been included in the Group Accounts.

The Trust's accounts can be obtained from the Trust, Melrose Road, Galashiels, TD1 2DU.

Group Accounts

Jedburgh Leisure Facilities Trust
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 42.3% 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 2015 have been used. The company's draft Statement of Financial Activities shows an operating deficit of £0.009m for the year to 31 March 2015 of which £0.004m (44.4%) has been included in the Group Accounts. The company's draft balance Sheet as at 31 March 2015 shows net assets of £0.011m of which £0.004m (36.4%) has been included in the Group Accounts.

The Trust's accounts can be obtained from the Trust, 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 Council was not involved in any joint arrangements during 2014/15.

Group Movement in Reserves Statement

Movement in reserves during 2013/14

	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
Restated Balance at 01/04/2013	(23,340)	(5,466)	**(28,806)**	54,205	(8,646)	**45,559**	**16,753**
Movement in reserves during 2013/14							
(Surplus)/deficit on provision of services	6,436	164	**6,600**	-	-	**-**	**6,600**
Other Comprehensive Income & Expenditure	-	(100)	**(100)**	(10,694)	378	**(10,316)**	**(10,416)**
Total Comprehensive Income & Expenditure	6,436	64	**6,500**	(10,694)	378	**(10,316)**	**(3,816)**
Adjustments between accounting basis & funding basis under regulations							
Charges for depreciation & amortisation of non-current assets	(19,993)	-	**(19,993)**	19,993	-	**19,993**	**-**
Impairment losses (charged to CI&ES)	(618)	-	**(618)**	618	-	**618**	**-**
Revaluation Losses	(3,064)	-	**(3,064)**	3,064	-	**3,064**	**-**
Capital grants and contributions applied	14,868	-	**14,868**	(14,868)	-	**(14,868)**	**-**
Icelandic Banks Statutory Adjustment	605	-	**605**	(605)	-	**(605)**	**-**
Icelandic Loss Adjustment	(585)	-	**(585)**	585	-	**585**	**-**
Employee - Statutory Adjustments	(1,370)	-	**(1,370)**	1,370	-	**1,370**	**-**
Profit/(Loss) on disposal of assets	(832)	-	**(832)**	832	-	**832**	**-**
Revenue Expenditure Funded from Capital	(529)	-	**(529)**	529	-	**529**	**-**
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	205	-	**205**	(205)	-	**(205)**	**-**
Net retirement charges per IAS 19	(24,093)	-	**(24,093)**	24,093	-	**24,093**	**-**
Loans Fund principal repayments and Statutory premia	11,717	-	**11,717**	(11,717)	-	**(11,717)**	**-**
Capital Expenditure charged to General Fund balance	432	-	**432**	(432)	-	**(432)**	**-**
Employers contribution payable to Pension Fund	11,609	-	**11,609**	(11,609)	-	**(11,609)**	**-**
Net (Increase)/Decrease before transfers	**(5,212)**	**64**	**(5,148)**	**954**	**378**	**1,332**	**(3,816)**
Net Transfers to or (from) other reserves	2,832	(275)	**2,557**	(2,832)	275	**(2,557)**	**-**
(Increase)/Decrease in 2013/14	**(2,380)**	**(211)**	**(2,591)**	**(1,878)**	**653**	**(1,225)**	**(3,816)**
Balance at 31/03/2014	**(25,720)**	**(5,676)**	**(31,396)**	**52,327**	**(7,993)**	**44,334**	**12,938**

Group Movement in Reserves Statement

	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 01/04/2014	**(25,720)**	**(5,676)**	**(31,396)**	**52,327**	**(7,993)**	**44,334**	**12,938**
Movement in reserves during 2014/15							
(Surplus)/deficit on provision of services	(179)	214	**35**	-	-	**-**	**35**
Other Comprehensive Income & Expenditure	-	(377)	**(377)**	(44,745)	(4,678)	**(49,423)**	**(49,800)**
Total Comprehensive Income & Expenditure	**(179)**	**(163)**	**(342)**	**(44,745)**	**(4,678)**	**(49,423)**	**(49,765)**
Adjustments between accounting basis & funding basis under regulations							
Charges for depreciation & amortisation of non-current assets	(20,886)	-	**(20,886)**	20,886	-	**20,886**	**-**
Impairment Losses (charged to CI&ES)	(3,085)	-	**(3,085)**	3,085	-	**3,085**	**-**
Revaluation Losses	(288)	-	**(288)**	288	-	**288**	**-**
Capital grants and contributions applied	20,768	-	**20,768**	(20,768)	-	**(20,768)**	**-**
Employee - Statutory Adjustments	1,270	-	**1,270**	(1,270)	-	**(1,270)**	**-**
Profit/(Loss) on disposal of assets	(1,035)	-	**(1,035)**	1,035	-	**1,035**	**-**
Revenue Exp Funded From Capital	(3)	-	**(3)**	3	-	**3**	**-**
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	206	-	**206**	(206)	-	**(206)**	**-**
Net retirement charges per IAS 19	(25,039)	-	**(25,039)**	25,039	-	**25,039**	**-**
Loans Fund principal repayments and Statutory premia	10,818	-	**10,818**	(10,818)	-	**(10,818)**	**-**
Capital Expenditure charged to General Fund balance	935	-	**935**	(935)	-	**(935)**	**-**
Employers contribution payable to Pension Fund	12,517	-	**12,517**	(12,517)	-	**(12,517)**	**-**
Net (Increase)/Decrease before transfers	**(4,001)**	**(163)**	**(4,164)**	(40,923)	(4,678)	**(45,601)**	**(49,765)**
Net Transfers to or (from) other reserves	1,825	(375)	**1,450**	(1,825)	375	**(1,450)**	**-**
(Increase)/Decrease in 2014/15	**(2,176)**	**(538)**	**(2,714)**	**(42,748)**	**(4,303)**	**(47,051)**	**(49,765)**
Balance at 31/03/2015	**(27,896)**	**(6,213)**	**(34,109)**	**9,579**	**(12,297)**	**(2,718)**	**(36,827)**

Group Comprehensive Income and Expenditure Statement

2013/14				2014/15		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
117,471	(4,796)	112,675	Education	118,088	(4,506)	113,582
35,621	(31,646)	3,975	General Fund Housing Services	38,690	(33,481)	5,209
12,055	(1,503)	10,552	Cultural & Related Services	16,335	(1,942)	14,393
24,500	(2,345)	22,155	Environmental Services	22,460	(2,852)	19,608
21,988	(6,095)	15,893	Roads & Transport Services	24,404	(5,844)	18,560
8,295	(3,323)	4,972	Planning & Development Services	8,661	(4,376)	4,285
87,375	(16,022)	71,353	Social Work	84,144	(14,947)	69,197
11,283	(3,000)	8,283	Central Services	8,439	(1,434)	7,005
2,445	-	2,445	Non-Distributed Costs	685	-	685
536	(259)	277	Common Good	594	(284)	310
140	(91)	49	Trust Funds	143	(141)	2
2,767	(2,797)	(30)	Share of Operating Results of Associates	2,757	(2,716)	41
324,476	**(71,877)**	**252,599**	**Services provided by the Council**	**325,400**	**(72,523)**	**252,877**
324,476	**(71,877)**	**252,599**	**Net Cost of Services**	**325,400**	**(72,523)**	**252,877**
		(290)	Roads Trading Operation (Surplus)/Deficit (External)			(165)
			Other Operating Expenditure			
		(785)	(Gain)/Loss on Disposal of Assets			288
			Financing & Investment Income and Expenditure			
		11,908	Interest Payable & Similar Charges			11,806
		(262)	Interest Receivable & Similar Income			(164)
		8,389	Net Interest Expense on the Net Defined Benefit Liability			8,973
		1	Share of Associates Interest Payable			4
		(30)	Share of Associates Interest & Investment Income			(29)
		-	Share of Associates Pension Interest Cost & Expected Return on Pension Assets			-
			Taxation and Non-Specific Grant Income			
		(176,318)	Revenue Support Grant			(175,625)
		(28,503)	Non-Domestic Rates Pool for Scotland			(31,013)
		(45,241)	Council Tax			(46,149)
		(14,868)	Capital Grants and Contributions			(20,768)
		6,600	**(Surplus)/Deficit on Provision of Services**			**35**

Group Comprehensive Income and Expenditure Statement

2013/14				2014/15		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
		6,600	**(Surplus)/Deficit on Provision of Services**			**35**
		(5,357)	(Surplus)/Deficit on revaluation of Non Current Assets			(4,148)
		(200)	Any Other (Gains) Or Losses			(377)
		(4,859)	Actuarial (gains)/losses on pension assets/liabilities			(45,275)
		(10,416)	**Other Comprehensive Income and Expenditure**			(49,800)
		(3,816)	**Total Comprehensive Income and Expenditure**			**(49,765)**

Group Balance Sheet

2013/14 £'000		2014/15 £'000
	Property Plant and Equipment	
300,117	Other Land and Buildings	302,804
14,127	Vehicle, Plant, Furniture & Equipment	14,621
83,294	Infrastructure	86,483
6,721	Surplus Assets	4,730
18,452	Assets Under Construction	26,976
1,020	Heritage Assets	1,039
0	Investment Property	1,290
365	Intangible Assets	295
4,055	Long Term Investments	4,403
1,169	Investments in Associates	1,180
4,699	Long Term Debtors	4,316
434,019	**Long Term Assets**	**448,137**
-	Short Term Investments	52
922	Inventories	966
32,251	Short Term Debtors	38,291
(8,570)	less Bad Debt Provision	(8,838)
13,692	Cash and Cash Equivalents	15,001
38,295	**Current Assets**	**45,472**
(3,390)	Short Term Borrowing	(3,243)
(47,643)	Short Term Creditors	(49,105)
(2,599)	Provisions	(1,299)
(53,632)	**Current Liabilities**	**(53,647)**
(171,895)	Long Term Borrowing	(172,076)
(55,873)	Deferred Liabilities	(54,330)
-	Finance Leases/Bonds	-
(755)	Liabilities of Associates	(355)
-	Provisions	(3,809)
(4,699)	Capital Grants Receipts in Advance	(6,493)
(233,222)	**Long Term Liabilities**	**(237,063)**
185,460	**Net Assets excluding pension liability**	202,899
(198,398)	Pension Liability	(166,072)
(12,938)	**Net Assets/(Liabilities) including pension liability**	**36,827**

Group Balance Sheet

2013/14 £'000	Financed By:	2014/15 £'000
	Useable Reserves	
(6,923)	Capital Fund	(7,552)
(17,136)	General Fund Balance	(18,991)
(300)	Property Maintenance Fund	(39)
(1,361)	Insurance Fund	(1,314)
(5,676)	Share of Group Entities Usable Reserves	(6,213)
	Unusable Reserves	
(91,771)	Capital Adjustment Account	(103,407)
5,601	Financial Instruments Adjustment Account	5,395
(68,361)	Revaluation Reserve	(65,671)
198,398	Pension Reserve	166,072
8,460	STACA Statutory Mitigation Account	7,190
(7,993)	Share of Group Entities Unusable Reserves	(12,297)
12,938	**Total Reserves**	**(36,827)**

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

Group Cash Flow Statement

2013/14 £'000		2014/15 £'000	2014/15 £'000
6,600	**Net (Surplus) or deficit on the provision of services**	**35**	
59	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	(16)	
(43,356)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(34,558)	
13,891	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	19,201	
(22,806)	**Net Cash Flows From Operating Activities**		**(15,338)**
	Investing Activities		
27,100	Purchase of PP&E, investment property and intangible assets	33,307	
(1,169)	Proceeds from PP&E, investment property and intangible assets	(745)	
(3,024)	Purchase/(Disposal) of short & long term investments	291	
(16,443)	Other Items which are Investing Activities	(21,930)	
6,464	**Net Cash Flows from Investing Activities**		**10,923**
	Financing Activities		
66	Cash received from loans & other borrowing	(246)	
1,880	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,921	
6,136	Repayments of short and long term borrowing	167	
461	Other items which are financing activities	1,264	
8,543	**Net Cash Flows from Financing Activities**		**3,106**
(7,799)	**Net (Increase) or Decrease in Cash and Cash Equivalents**		**(1,309)**
5,893	Cash and Cash Equivalents at the beginning of the reporting period		13,692
13,692	Cash and Cash Equivalents at the end of the reporting period		15,001
(7,799)	Movement		**(1,309)**

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 46 to 57.

The Council has accounted for its interest in each subsidiary using the acquisition method of accounting. The Council's interest in each associate 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:

2013/14 £'000	Reconciliation to General Fund Surplus	2014/15 £'000
6,600	**Net (Surplus) or deficit on the provision of services**	**35**
59	**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**	**(16)**
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(20,129)	Depreciation	(21,037)
(3,681)	Impairment & Revaluation Loss through I & E	(3,442)
(139)	Amortisation of intangible assets	(224)
(12,484)	Movement in pension liability	(12,522)
725	Gain/Loss on carrying amounts of assets disposed	(288)
(30)	Net movement in inventories charged to I & E	44
(4,293)	Net movement in debtors charged to I & E	5,832
(2,803)	Net movement in creditors charged to I & E	(3,267)
(522)	Net movement in provisions charged to I & E	346
(43,356)		**(34,558)**
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
14,868	Capital grants received	20,768
(977)	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(1,567)
13,891		**19,201**
(22,806)	**Net Cash Outflow / (Inflow) from Operating Activities**	**(15,338)**

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 surplus of £0.2m on the Council's single entity Comprehensive Income and Expenditure Statement becomes a group deficit of £0.03m. Inclusion of group entities has had the overall effect of turning increasing Balance Sheet net assets from £18.3m to £36.8m with this increase being primarily due to the inclusion of the Common Good Funds and Trust Funds. The Group Balance Sheet position has improved significantly from a net liability of £13.0m in 2013/14 to a net assets position of £36.8m in 2014/15.

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 8 former burghs, Duns, 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 183 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 6 of which have charitable status and are 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.

Independent Auditors Report
to the Members of Scottish Borders Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Scottish Borders Council and its group for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Council Tax Income Accounts, and the Non-domestic Rate Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the authority and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of the local authority as at 31 March 2015 and of the income and expenditure of the group and the authority for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Independent Auditor's Report to the Members of Scottish Borders Council and the Accounts Commission for Scotland (continued)

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Hugh Harvie
for and on behalf of KPMG LLP, Statutory Auditor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

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Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance,
Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825016 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

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Scottish Borders Council Common Good Funds

Charity Registration Number: SC031538

annual report and financial statements

for the year to 31 March 2015

Contents

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.

The Charity comprises of the eight Common Good Funds within Scottish Borders Council. Each holding property which it is responsible for maintain and distribution 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 2015.

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

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

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Auditor KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Common Good Funds.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Structure

a) The Charity comprises a number of separate funds for the former Burghs of:
Duns
Galashiels
Hawick
Jedburgh
Kelso
Lauder
Peebles, and
Selkirk

b) Each fund is administered by a Sub-Committee of Elected Members representing the Council wards in which each Burgh is situated.

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 etc 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 the case law governing the treatment of Common Goods.

b) In terms of the Trustee's governance of the fund, they have determined that this is in terms of the Corporate Governance of the Council, namely the code as comprises:-

- Financial Regulations;
- Code of Corporate Governance;
- Procedural Standing Orders;
- Scheme of Administration; and
- Scheme of Delegation.

c) When considering any action in connection with the Common Good Funds the Trustees have in the interest of the Common Good Fund and 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 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, ie those wards covering former Burgh areas and in terms of the Council's Code of Governance.

Charitable Purpose

The charitable purpose of the Common Good Funds are that, subject to their legal responsibilities in terms of any assets held by the Trust, 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 (Duns, Hawick, Jedburgh, Kelso, Lauder, Peebles and Selkirk), 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 12.

Most of the Funds have made donations to eligible beneficiaries in their Burghs.

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.

Funding and Reserves

Investments Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Policy on Reserves The Council treats the Charities' funds in line with recognised national governance and applicable codes of practice.

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 can be 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.

The report was signed on behalf of the Trustees by

David Parker
Trustee
Scottish Borders Council Common Good Funds
29 September 2015

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

The Trustees are responsible for preparing the Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires that the trustees prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP 2005;
- 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 charitable company will continue in its activities.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES
(Including an Income and Expenditure Account)
for the year ended 31 March 2015

2013/14 £'000		2014/15 £'000	*Notes*
	Incoming Resources		
	Incoming Resources from Generated Funds		
23	Voluntary Income	58	*1*
55	Investment Income	60	*2*
236	Rental Income	225	
314	**Total Incoming Resources**	**343**	
	Resources Expended		
(326)	Costs of Generating Funds: Property Costs	(460)	*3*
(154)	Charitable Activities	(85)	*3*
(56)	Governance Costs	(48)	*3&4*
(536)	**Total Resources Expended**	**(593)**	
(222)	**Net Incoming Resources before Transfers**	**(250)**	
19	Gross Transfers between Funds	324	
(203)	**Net Incoming/(Outgoing) Resources before Other Recognised Gains and Losses**	**74**	
	Other Recognised Gains and Losses		
7	Property Sale	0	
0	Gains on Revaluation Of Fixed Assets	3,497	
60	Gains/(Loss) on Investment Assets	0	
67	**Total Other Recognised Gains and Losses**	**3,497**	
(136)	**Net Income/(Expenditure) for the Year**	**3,571**	
30	Net Unrealised Investment Gains/(Losses)	79	
(106)	**Net Movement in Funds**	**3,650**	
	Reconciliation of Funds		
9,848	Total Funds Brought Forward	9,742	
9,742	**Total Funds Carried Forward**	**13,392**	

BALANCE SHEET as at 31 March 2015

as at 31 March 2014 Restated			as at 31 March 2015		Notes
£'000	£'000		£'000	£'000	
		Fixed Assets			
7,092		Tangible Assets	10,622		5
2,177		Investments	2,350		6
	9,269			**12,972**	
	102	**Long Term Loan to Third Party**		**77**	
		Current Assets			
3		Debtors	20		7
488		Short Term Investment in SBC Loans Fund.	389		
	491			**409**	
		Current Liabilities			
	(120)	Creditors: Amounts falling due within 1 year		(66)	8
	9,742	**Total Assets**		**13,392**	
		The Funds of the Charity			
	(2,841)	Restricted Income Funds		(2,962)	9
	(6,901)	Revaluation Reserve		(10,430)	
	(9,742)	**Total Funds**		**(13,392)**	

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 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
29 September 2015

CASH FLOW for the year ended 31 March 2015

2013/14 Restated £'000		2014/15 £'000
	Reconciliation of Operating Profit to Net Cash Flow from Operating Activities	
(222)	Net Incoming /(Outgoing) Resources before Transfers	(250)
171	Adjustment for Depreciation Charges which are non-cash movements	291
80	Decrease/(Increase) in Debtors	(17)
51	Increase/(Decrease) in Creditors due within 1 year	(54)
60	Realised Gains/(Losses) on Investments	0
140	**Net Cash Inflow/(Outflow) from Operating Activities**	**(30)**

2013/14 Restated £'000		2014/15 £'000
	Cash Flow Statement	
140	**Net Cash Inflow/(Outflow) from Operating Activities**	**(30)**
	Financial Investing Activities	
(66)	(Advances)/Repayments on Long Term Loans	25
(1,108)	(Purchase)/Disposal of Long Term Investments	(94)
1,034	(Deposit)/Withdrawal from Short Term Investments	99
0	**Increase / (Decrease) in Cash in Period**	**0**

Reconciliation of Net Cash Flow to Movement in Net Funds

	As at 1 April 2014 £'000	Movement £'000	**As at 31 March 2015 £'000**
Cash at Bank and In Hand	0	0	**0**
	0	0	**0**

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 in accordance with applicable accounting standards and under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Charities and Trustee Investment (Scotland) Act 2005, regulation 8 of the Charities Accounts (Scotland) regulations 2006 (as amended) and the Statement of Recommended Practice: Accounting and reporting by Charities issued in February 2006, except for the non-recognition of donated assets (see donations and gifts below).

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

Funds are classified as Restricted Funds, defined as follows:

Restricted funds are funds subject to specific conditions, which may be declared by the donors or with their authority or created through legal processes, but still within the objects of the charity.

Voluntary Income

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

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 next 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

Fixed asset investments are stated at market value. Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial yea, 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 Voluntary Income

Restricted

2013/14 £000		2014/15 £'000
1	Duns	1
1	Galashiels	6
7	Hawick	30
1	Jedburgh	1
1	Kelso	1
6	Lauder	6
3	Peebles	3
5	Selkirk	10
25		**58**

2 Investment Income

2013/14 £000		2014/15 £'000
7	Bank Interest Receivable	3
48	Income from Investment Portfolio	57
55		**60**

3 Resources Expended

2013/14 Total £'000		Activities Undertaken Directly £'000	Governance Costs £'000	Property Cost & Depreciation £'000	2014/15 Total £'000
5	Duns	0	2	24	26
2	Galashiels	0	2	12	14
167	Hawick	12	11	175	198
24	Jedburgh	34	3	12	49
33	Kelso	1	2	42	45
129	Lauder	1	10	22	33
61	Peebles	21	8	58	87
115	Selkirk	16	10	115	141
536		**85**	**48**	**460**	**593**

4 Governance Costs

The fee for the external audit of the charity was included as part of the support costs charged by the Scottish Borders Council.

5 Tangible Fixed Assets

As at 31 March 2014 Total £'000		as at 31 March 2015 Land & Buildings at Net Book Value £'000	Heritage Assets £'000	Total £'000
4	Duns	3	0	3
0	Galashiels	313		313
2,532	Hawick	3,675	3	3,678
414	Jedburgh	488		488
669	Kelso	864	19	883
691	Lauder	1,028		1,028
678	Peebles	914	2	916
2,104	Selkirk	3,312	1	3,313
7,092		**10,597**	**25**	**10,622**

The movement in the value of Tangible Fixed Assets has been driven by the following movements:

	£'000
Opening Balance at1 April 2014	**7,092**
Depreciation for year	(291)
Donated Heritage Property	324
Surplus on Revaluation	3,497
Closing Balance at 31 March 2015	**10,622**

The Donated Heritage Property is primarily related to the transfer of assets from the Council's asset register to Galashiels Common Good following investigative work undertaken and approved during 2014/15.

6 Investments

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2015 all investments were with the Newton Real Return Fund.

7 Debtors

2013/14 £'000		2014/15 £'000
3	Trade Debtors and Accruals	20
102	Loans to Third Parties	77
488	Due from Scottish Borders Council	389
593		**486**

8 Creditors: Amounts Falling Due Within One Year

2013/14 £'000		2014/15 £'000
120	Trade Creditors and Accruals	66

9 Restricted Funds

Balance at 31 March 2015 £'000		Balance at 31 March 2015 £'000
22	Duns	22
25	Galashiels	31
595	Hawick	614
1,018	Jedburgh	1,039
284	Kelso	298
237	Lauder	243
455	Peebles	493
205	Selkirk	222
2,841		**2,962**

10 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 the Accounts Commission for Scotland

We certify that we have audited the financial statements of Scottish Borders Council Common Good Funds for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of the financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Trustees of Scottish Borders Council Common Good Funds and the Accounts Commission for Scotland (continued)

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Hugh Harvie,
for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

ADDITIONAL INFORMATION

Contact Details

For further information on the Common Good Funds, 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

annual report and financial statements

SBC Welfare Trust

Charity Registration Number: SC044765

For the year to 31 March 2015

Scottish Borders COUNCIL

Contents

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 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 2014/15 following the winding up of various individually registered charities their balances were transferred into this new Charitable Trust.

During 2015/16 further work on the reorganisation of charity funds is expected to result in additional resources being transferred into this Charitable Trust.

In agreement with OSCR the charity is deemed to have been established on 1 April 2014, there is therefore no accounts information of 2013/14.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2015.

Reference and Administrative Information

Charity Name	SBC Welfare Trust
Charity registration number	SCO44765
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
Frances 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.

Chief Finance Officer David Robertson

Auditor KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Charity.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

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 geographical area.

Governance and Management

Type of Governing Documents

a) A Trust Deed was 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 reflected this in the following 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; and
- 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 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.

Charitable Purpose

The charitable purposes are;

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.

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 2014/15.

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 Financial Statements.

Funding and reserves

Investments Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Policy on Reserves The Council treats the Charities' funds in line with recognised national governance and applicable codes of practice.

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.

The report was signed on behalf of the Trustees by

David Parker
Trustee
SBC Welfare Trust
29 September 2015

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

The Trustees are responsible for preparing the Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires that the trustees prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP (2005);
- 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 charitable company will continue in its activities.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES
(Including an Income and Expenditure Account)
for the year ended 31 March 2015

	2014/15 Restricted Funds £	*Notes*
Incoming Resources		
Incoming Resources from Generated Funds		
Interest and Investment Income	2,561	*1*
Other Incoming Resources	99,202	
Total Incoming Resources	**101,763**	
Resources Expended		
Charitable Activities	0	*2*
Total Resources Expended	**0**	
Net Incoming Resources before Other Recognised Gains and Losses	**101,763**	
Other Recognised Gains/(Losses)		
Gains/(Loss) on Investment Assets	3,028	
Net Movement in Funds	**104,791**	
Reconciliation of Funds		
Total Funds Brought Forward	0	
Total Funds Carried Forward	**104,791**	

BALANCE SHEET as at 31 March 2015

	at 31 March 2015		Notes
	£	£	
Fixed Assets			
Investments	97,050		*4*
		97,050	
Current Assets			
Investments:			
Short Term Investment SBC Loans Fund	8,072		*5*
Current Liabilities			
Creditors: Amounts Falling Due Within One Year	(331)		
Net Current Assets		**7,741**	
Net Assets		**104,791**	
The Funds of the Charity			
Restricted Income Funds	104,791		*6*
Total Funds		**104,791**	

All of the Charity's activities are continuing.

The Accounting Policies on pages 10 and the Notes on page 11 form part of these Financial Statements.

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
29 September 2015

CASH FLOW for the year ended 31 March 2015

	2014/15 £
Reconciliation of Operating Profit to Net Cash Flow from Operating Activities	
Net Incoming Resources before Other Recognised Gains and Losses	101,763
Other Incoming Resources	(99,202)
Increase/(Decrease) in Creditors	331
Net Cash Inflow/(Outflow) from Operating Activities	**2,892**

	2014/15 £
Cash Flow Statement	
Net Cash Inflow/(Outflow) from Operating Activities	**2,892**
Investing Activities	
(Deposit)/Withdrawal - Short Term Investments	(2,892)
Increase / (Decrease) in Cash in Period	**0**

Reconciliation of Net Cash Flow to Movement in Net Funds

	As at 1 April 2014 £'000	Movement £'000	**As at 31 March 2015 £'000**
Cash at Bank and In Hand	0	0	**0**
	0	0	**0**

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 in accordance with applicable accounting standards and under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Charities and Trustee Investment (Scotland) Act 2005, regulation 8 of the Charities Accounts (Scotland) regulations 2006 (as amended) and the Statement of Recommended Practice: Accounting and reporting by Charities issued in February 2006, except for the non-recognition of donated assets (see donations and gifts below).

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

Funds are classified as Restricted Funds, defined as follows:

Restricted funds are funds subject to specific conditions, which may be declared by the donors or with their authority or created through legal processes, but still within the objects of the charity.

Voluntary Income

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

The only resource expended was a grant issued for charitable activities. There were no costs associated with the costs of generating funds and governance costs.

Investments

Fixed asset investments are stated at market value. 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

	2014/15 £
Interest Receivable	121
Income from Investment Portfolio	2,440
	2,561

2 Charitable Activities during 2014/15

There were no charitable activities during 2014/15.

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 2015 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 fund are shown in the table below. The purpose of these funds are:

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.

Restricted by area	Restricted by purpose	Other Incoming Resources £	Income £	Expenditure £	**Balance at 31 March 2015** **£**
Mid & East Berwickshire	a&b	53,326	2,634	-	**55,960**
Galashiels & District	a&b	4,219	266	-	**4,485**
Leaderdale & Melrose	a&b	8,056	499	-	**8,555**
Jedburgh & District	a&b	18,605	1,135	-	**19,740**
Hawick/Denholm/Hermitage	a&b	7,574	492	-	**8,066**
Tweeddale East & West	unrestricted	671	41	-	**712**
Tweeddale East & West	a&b	6,751	522	-	**7,273**
TOTAL		*99,202*	*5,589*	-	***104,791***

INDEPENDENT AUDITOR'S REPORT
to the Trustees of SBC Welfare Trust and the Accounts Commission for Scotland

We certify that we have audited the financial statements of SBC Welfare Trust for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of the financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Independent Auditor's Report to the Trustees of SBC Welfare Trust and the Accounts Commission for Scotland (continued)

Opinion on other prescribed matter

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Hugh Harvie,
for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Welfare Trust, 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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annual report and financial statements

SBC Education Trust

Charity Registration Number: SC044762

For the year to 31 March 2015

Scottish Borders COUNCIL

Contents

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 Education Trust.

The purpose of the new charity is “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 institution, charities or other organisation 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”

In agreement with OSCR the charity is deemed to have been established on 1 April 2014, there is therefore no accounts information of 2013/14.

During 2014/15 following the winding up of the individual charity for the Isabella Thom Prize Fund, these balances were transferred into this new charitable trust.

During 2015/16 further work on the reorganisation of charity funds 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 2015.

Reference and Administrative Information

Charity Name	SBC Educational Trust
Charity registration number	SC044762
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

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Chief Finance Officer David Robertson

Auditor KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Charity.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

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 geographical area.

Governance and Management

Type of Governing Documents

a) A Trust Deed was 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 reflected this in the following 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; and
- 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 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.

Charitable Purpose

The charitable purpose of this charity-:

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 institution, charities or other organisation 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

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for.

The Charity has made donations to two eligible beneficiaries during the year to 31 March 2015.

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 Financial Statements.

Funding and reserves

Investments Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Policy on Reserves The Council treats the Charities' funds in line with recognised national governance and applicable codes of practice.

Plans for the Future

The fund will continue to disburse to eligible recipients.

The report was signed on behalf of the Trustees by

David Parker
Trustee
SBC Educational Trust
29 September 2015

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

The Trustees are responsible for preparing the Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires that the trustees prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP (2005);
- 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 charitable company will continue in its activities.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES
(Including an Income and Expenditure Account)
for the year ended 31 March 2015

	2014/15 Restricted Funds £	*Notes*
Incoming Resources		
Incoming Resources from Generated Funds		
Interest and Investment Income	119	
Other Incoming Resources	1,619	
Total Incoming Resources	**1,738**	
Resources Expended		
Charitable Activities	(110)	*1*
Total Resources Expended	**(110)**	
Net Incoming Resources before Other Recognised Gains and Losses	**1,628**	
Other Recognised Gains/(Losses)		
Gains/(Loss) on Investment Assets	56	
Net Movement in Funds	**1,684**	
Reconciliation of Funds		
Total Funds Brought Forward	0	
Total Funds Carried Forward	**1,684**	

BALANCE SHEET as at 31 March 2015

	at 31 March 2015 £	£	Notes
Fixed Assets			
Investments	1,616		*3*
Current Assets			
Investments:			
Short Term Investment in SBC Loan Fund	68		
Net Current Assets		**68**	
Total Assets Less Current Liabilities		**1,684**	
The Funds of the Charity			
Restricted Funds	1,684		
Total Funds		**1,684**	

All of the Charity's activities are ongoing.

The Accounting Policies on pages 10 and the Notes on pages 11 form part of these Financial Statements.

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
29 September 2015

CASH FLOW for the year ended 31 March 2015

	2014/15 £
Reconciliation of Operating Profit to Net Cash Flow from Operating Activities	
Net Incoming Resources before Other Recognised Gains and Losses	1,628
Other Incoming Resources	(1,619)
Net Cash Inflow/(Outflow) from Operating Activities	**9**

	2014/15 £
Cash Flow Statement	
Net Cash Inflow/(Outflow) from Operating Activities	**9**
Investing Activities	
(Purchase)/Disposal of Short Term Investments	(9)
Increase / (Decrease) in Cash in Period	**0**

Reconciliation of Net Cash Flow to Movement in Net Funds

	As at 1 April 2014 £'000	Movement £'000	**As at 31 March 2015 £'000**
Cash at Bank and In Hand	0	0	**0**
	0	0	**0**

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 in accordance with applicable accounting standards and under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Charities and Trustee Investment (Scotland) Act 2005, regulation 8 of the Charities Accounts (Scotland) regulations 2006 (as amended) and the Statement of Recommended Practice: Accounting and reporting by Charities issued in February 2006, except for the non-recognition of donated assets (see donations and gifts below).

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

Funds are classified as Restricted Funds, defined as follows:

Restricted funds are funds subject to specific conditions, which may be declared by the donors or with their authority or created through legal processes, but still within the objects of the charity.

Voluntary Income

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

The only resource expended was a grant issued for charitable activities. There were no costs associated with the costs of generating funds and governance costs.

Investments

Fixed asset investments are stated at market value. 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 Counci.l

NOTES TO THE FINANCIAL STATEMENTS

1 Charitable Activities during 2014/15

The Charity has made donations to two eligible beneficiaries during the year to 31 March 2015

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

The investments are all held in the Newton Real Return Fund.

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2015 all investments were with the Newton Real Return Fund.

INDEPENDENT AUDITOR'S REPORT
to the Trustees of SBC Educational Trust and the Accounts Commission for Scotland

We certify that we have audited the financial statements of SBC Educational Trust for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of the financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Independent Auditor's Report to the Trustees of SBC Educational Trust and the Accounts Commission for Scotland (continued)

Opinion on other prescribed matter

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Hugh Harvie,
for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Welfare Charitable Trust, 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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annual report and financial statements

SBC Community Enhancement Trust

Charity Registration Number: SC044764

For the year to 31 March 2015

Scottish Borders COUNCIL

Contents

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 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 2014/15 following the winding up of various individually registered charities their balances were transferred into this new Charitable Trust.

During 2015/16 further work on the reorganisation of charity funds is expected to result in additional resources being transferred into this Charitable Trust.

In agreement with OSCR the charity is deemed to have been established on 1 April 2014, there is therefore no accounts information of 2013/14.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2015.

Reference and Administrative Information

Charity Name	SBC Community Enhancement Trust
Charity registration number	SCO44764
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
Frances 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.

Chief Finance Officer David Robertson

Auditor KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Charity.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

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 geographical area.

Governance and Management

Type of Governing Documents

a) A Trust Deed was 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 reflected this in the following 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; and
- 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 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.

Charitable Purpose

The charitable purposes are:

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

Summary of the Main Activities

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for.

One donation has been made from the fund for £3,500 to Langton & Lammermuir Kirk for repairs to Cranshaws Manse.

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 Financial Statements.

Funding and reserves

Investments Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Policy on Reserves The Council treats the Charities' funds in line with recognised national governance and applicable codes of practice.

Plans for the Future

The fund will continue to disburse grants to eligible recipients within the purposes of the restricted funds.

The report was signed on behalf of the Trustees by

David Parker
Trustee
SBC Community Enhancement Trust
29 September 2015

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

The Trustees are responsible for preparing the Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires that the trustees prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP (2005);
- 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 charitable company will continue in its activities.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES
(Including an Income and Expenditure Account)
for the year ended 31 March 2015

	2014/15 Restricted Funds £	*Notes*
Incoming Resources		
Incoming Resources from Generated Funds		
Investment Income	2,063	*1*
Other Incoming Resources	72,465	*2*
Total Incoming Resources	**74,528**	
Resources Expended		
Charitable Activities	(3,500)	*3*
Total Resources Expended	**3,500**	
Net Incoming Resources before Other Recognised Gains and Losses	**71,028**	
Other Recognised Gains/(Losses)		
Gains/(Loss) on Investment Assets	3,130	
Net Movement in Funds	**74,158**	
Reconciliation of Funds		
Total Funds Brought Forward	0	
Total Funds Carried Forward	**74,158**	

BALANCE SHEET as at 31 March 2015

	at 31 March 2015 £	at 31 March 2015 £	Notes
Fixed Assets			
Investments	78,410		*5*
		78,410	
Current Liabilities			
Creditors: Amounts Falling Due Within One Year	(4,252)		*6*
Net Current Assets		**(4,252)**	
Net Assets		**74,158**	
The Funds of the Charity			
Restricted Income Funds	74,158		*7*
Total Funds		**74,158**	

All of the Charity's activities are continuing.

The Accounting Policies on pages 10 and the Notes on page 11 form part of these Financial Statements.

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
29September 2015

CASH FLOW for the year ended 31 March 2015

	2014/15 £
Reconciliation of Operating Profit to Net Cash Flow from Operating Activities	
Net Incoming Resources before Other Recognised Gains and Losses	71,028
Other Incoming Resources	(72,465)
Increase/(Decrease) in Creditors	4,252
Net Cash Inflow/(Outflow) from Operating Activities	**2,815**

	2014/15 £
Cash Flow Statement	
Net Cash Inflow/(Outflow) from Operating Activities	**2,815**
Investing Activities	
(Purchase)/Disposal of Long Term Investments	(2,815)
Increase / (Decrease) in Cash in Period	**0**

Reconciliation of Net Cash Flow to Movement in Net Funds

	As at 1 April 2014 £'000	Movement £'000	**As at 31 March 2015 £'000**
Cash at Bank and In Hand	0	0	**0**
	0	0	**0**

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 in accordance with applicable accounting standards and under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Charities and Trustee Investment (Scotland) Act 2005, regulation 8 of the Charities Accounts (Scotland) regulations 2006 (as amended) and the Statement of Recommended Practice: Accounting and reporting by Charities issued in February 2006, except for the non-recognition of donated assets (see donations and gifts below).

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

Funds are classified as Restricted Funds, defined as follows:

Restricted funds are funds subject to specific conditions, which may be declared by the donors or with their authority or created through legal processes, but still within the objectives of the charity.

Voluntary Income

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

The only resource expended was a grant issued for charitable activities. There were no costs associated with the costs of generating funds and governance costs.

Investments

Fixed asset investments are stated at market value. 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

	2014/15 £
Interest Receivable	79
Income from Investment Portfolio	1,984
	2,063

2 Other Incoming Resources

The incoming resources relate to the resources previously held by the individual Trusts which following the formal reorganisation undertaken in consultation with OSCR have been reorganised into this new Charity.

3 Charitable Activities during 2014/15

One grant donation has been made from the fund for £3,500 to Langton & Lammermuir Kirk for repairs to Cranshaws Manse. This grant was issued from the restricted fund Berwickshire area (b) under the purpose of upkeep of heritage.

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

The investments are all held in the Newton Real Return Fund.

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2015 all investments were with the Newton Real Return Fund.

6 Creditors: Amounts Falling Due Within One Year

The creditors consist of funds due to Scottish Borders Council who forward funded the disbursement of the grants.

7 Restricted Funds

The funds held with the Charity are restricted by area, purpose or both. The restrictions for each fund are shown in the table below. The purpose of these funds are

a. Advancement of community development
b. Advancement of the arts, heritage, culture or science, including the upkeep of heritage
c. Advance of recreational facilities, or the recreational activities, with the object of improving condition of life for the persons for whom the facilities or activities are primarily intended
d. Advancement of environmental protection or improvement

Restricted by Area	**Restricted by Purpose**	**Other Incoming Resources £**	**Income £**	**Expenditure £**	**Balance at 31/3/2015 £**
Borders Wide	a	1,338	132	-	1,470
Berwickshire	Unrestricted	12,148	722	-	12,870
Berwickshire	b	31,941	2,634	3,500	31,075
Berwickshire	Henderson Park & War Mem	479	34	-	513
Cheviot	Allerley Park	1,469	120	-	1,589
Selkirkshire	Unrestricted	1,025	63	-	1,088
Teviot & Liddlesdale	b	17,669	1,097	-	18,766
Teviot & Liddlesdale	b&d	6,396	391	-	6,787
		72,465	5,193	3,500	74,158

INDEPENDENT AUDITOR'S REPORT
to the Trustees of SBC Community Enhancement Trust and the Accounts Commission for Scotland

We certify that we have audited the financial statements of SBC Community Enhancement Trust for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of the financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Trustees of SBC Community Enhancement Trust and the Accounts Commission for Scotland (continued)

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Hugh Harvie,
for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Community Enhancement Trust, 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

annual report and financial statements

Thomas Howden Wildlife Trust

Charity Registration Number: SC015647

For the year to 31 March 2015

Scottish Borders COUNCIL

Contents

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 reorganisation of 34 registered charities was formally recognised by OSCR and this work was completed in 2014/15 with full approval of OSCR. The Thomas Howden Wildlife Fund was not included in this initial reorganisation but work will be under taken with OSCR during 2015/16 to reorganise this fund into the SBC Educational Fund.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2015.

Reference and Administrative Information

Charity Name Thomas Howden Wildlife Award

Charity registration number SC015647

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
Frances 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 KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Charity.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Governance and Management

Type of Governing Documents

a) The Charity came to be administered by the Council at 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 are in the principles of statute and common law governing trusts and bequests. The statutory framework are through the Local Government etc Scotland Act 1994, with the Local Government (Scotland) Act 1973 provisions still in force, and the Local Government in Scotland Act 2003. The Charities and Trustee Investment (Scotland) Act 2005 and the various Trust Acts are in point

(c) In terms of the Council's governance of the fund, this is in terms of the Corporate Governance of the Council, namely the code as comprises:-

- Financial Regulations;
- Code of Corporate Governance;
- Procedural Standing Orders;
- Scheme of Administration; and
- 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 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.

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 from this Charity during 2014/15

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 Financial Statements.

Funding and reserves

Investments Following agreement to implement a single investment strategy for Common Good Funds and other Trust and bequest funds held by the Council, tenders were obtained for a Fund Manager and Newton was appointed. Funds held by Scottish Borders Council for the Charity were deposited in the Newton Real Return Fund.

Policy on Reserves The Council treats the Charities' funds in line with recognised national governance and applicable codes of practice.

Plans for the Future

Within 2014/15, and with OSCR's approved, the reorganisation of the Funds a number of Charities maintained by the Council into three New Charities. It is planned that the Thomas Howden Wildlife Award Fund will be reorganised, with the necessary OSCR approvals, into the SBC Educational Trust established in the initial reorganisation of charities.

The report was signed on behalf of the Trustees by

David Parker
Trustee
Thomas Howden Wildlife Trust
29 September 2015

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

The Trustees are responsible for preparing the Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires that the trustees prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP 2005;
- 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 charitable company will continue in its activities.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES
(Including an Income and Expenditure Account)
for the year ended 31 March 2015

2013/14 Restricted Funds £		2014/15 Restricted Funds £	*Notes*
	Incoming Resources		
	Incoming Resources from Generated Funds		
164	Interest and Investment Income	211	*1*
164	**Total Incoming Resources**	**211**	
	Resources Expended	0	
0	**Total Resources Expended**	**0**	
164	**Net Incoming Resources before Other Recognised Gains and Losses**	**211**	
	Other Recognised Gains/(Losses)		
69	Gains/(Loss) on Investment Assets	127	
233	**Net Movement in Funds**	**338**	
	Reconciliation of Funds		
3,498	Total Funds Brought Forward	3,731	
3,731	**Total Funds Carried Forward**	**4,069**	

BALANCE SHEET as at 31 March 2015

at 31 March 2014			at 31 March 2015		Notes
£	£		£	£	
		Fixed Assets			
3,567		Investments	3,695		
		Current Assets			
164		Short Term Investments in SBC Loans Fund	374		
164			374		
	164	**Net Current Assets**		**374**	
	3,731	**Total Assets Less Current Liabilities**		**4,069**	
		The Funds of the Charity			
3,731		Restricted Income Funds	4,069		
	3,731	**Total Funds**		**4,069**	

All of the Charity's activities are continuing.

The Accounting Policies on pages 10 and the Notes on page 12 form part of these Financial Statements.

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
29 September 2015

CASH FLOW for the year ended 31 March 2015

2013/14 £		2014/15 £
	Reconciliation of Operating Profit to Net Cash Flow from Operating Activities	
164	Net Incoming Resources before Other Recognised Gains and Losses	210
164	**Net Cash Inflow/(Outflow) from Operating Activities**	**210**

2013/14 £		2014/15 £
	Cash Flow Statement	
164	**Net Cash Inflow/(Outflow) from Operating Activities**	**210**
	Investing Activities	
(164)	(Deposit)/Withdrawal from Short Term Investments	(210)
0	**Increase / (Decrease) in Cash in Period**	**0**

Reconciliation of Net Cash Flow to Movement in Net Funds

	As at 1 April 2014 £'000	Movement £'000	**As at 31 March 2015 £'000**
Cash at Bank and In Hand	0	0	**0**
	0	0	**0**

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 in accordance with applicable accounting standards and under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Charities and Trustee Investment (Scotland) Act 2005, regulation 8 of the Charities Accounts (Scotland) regulations 2006 (as amended) and the Statement of Recommended Practice: Accounting and reporting by Charities issued in February 2006, except for the non-recognition of donated assets (see donations and gifts below).

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

Funds are classified as Restricted Funds, defined as follows:

Restricted funds are funds subject to specific conditions, which may be declared by the donors or with their authority or created through legal processes, but still within the objects of the charity.

Voluntary Income

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

Fixed asset investments are stated at market value. Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial yea, 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

2013/14 £		**2014/15 £**
13	Interest Receivable	1
151	Income from Investment Portfolio	209
164		**210**

2 Charitable Activities during 2014/15

There have been no donations or grants disbursed by this Charity during 2014/15

INDEPENDENT AUDITOR'S REPORT
to the Trustees of Thomas Howden Wildlife Award Fund and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Thomas Howden Wildlife Award Fund for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of the financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor’s Report to the Trustees of Thomas Howden Wildlife Award Fund and the Accounts Commission for Scotland (continued)

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Hugh Harvie,
for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

ADDITIONAL INFORMATION

Contact Details

For further information on the Thomas Howden Wildlife Award, 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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annual report and financial statements

Ormiston Trust for Institute Fund

Charity Registration Number: SC019162

For the year to 31 March 2015

Scottish Borders COUNCIL

Contents

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.

Due to the Ormiston Institute containing heritable assets it has not been included within the 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 2015.

Reference and Administrative Information

Charity Name Ormiston Trust for Institute

Charity registration number SC019162

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, a local authority constituted under the Local Government (Scotland) Act 1994 for the ward of Leaderdale and Melrose, namely.

Iain Gillespie
David Parker
Jim Torrance

Chief Executive The Chief Executive of Scottish Borders Council is Tracey Logan.

Chief Finance Officer David Robertson

Auditor
KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Charity.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Structure

The Charity is a single standalone charity for the Ormiston Institute in Melrose and is registered with OSCR

Governance and Management

Type of Governing Documents

a) The charity came to be administered by the Council at 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.

b) In terms of the Trustee's governance of the fund, they have determined that this is in terms of the Corporate Governance of the Council, namely the code as comprises

- Financial Regulations;
- Code of Corporate Governance;
- Procedural Standing Orders;
- Scheme of Administration; and
- 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 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 ward of Leaderdale and Melrose.

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 2014/15 have been fully utilized during the year. The funds are expended on behalf of the Charity by Scottish Borders Council who manages facility on behalf of the Trustees.

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 Financial Statements.

Funding and reserves

Investments Following agreement to implement a single investment strategy for Common Good Funds and other Trust and bequest funds held by the Council, tenders were obtained for a Fund Manager and Newton was appointed. Funds held by Scottish Borders Council for the Charity were deposited in the Newton Real Return Fund. The Investment held in this fund on behalf of the Ormiston Trust for Institute is £3,969 at market value as at 31/3/15.

Policy on Reserves The Council treats the Charities' funds in line with recognised national governance and applicable codes of practice.

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.

The report was signed on behalf of the Trustees by

David Parker
Trustee
Ormiston Trust for Institute
29 September 2015

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

The Trustees are responsible for preparing the Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires that the trustees prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP (2005);
- 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 charitable company will continue in its activities.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES
(Including an Income and Expenditure Account)
for the year ended 31 March 2015

2013/14 Restricted Funds £		2014/15 Restricted Funds £	*Notes*
	Incoming Resources		
	Incoming Resources from Generated Funds		
63	Interest and Investment Income	102	*1*
63	**Total Incoming Resources**	**102**	
	Resources Expended		
(63)	Charitable Activities	(102)	*2*
(16,366)	Property Costs (Depreciation)	(25,500)	*3*
(16,429)	**Total Resources Expended**	**(25,602)**	
(16,366)	**Net Outgoing Resources before Other Recognised Gains and Losses**	**(25,500)**	
	Other Recognised Gains/(Losses)		
0	Gains/(Loss) on Revaluation of Fixed Assets for Charity's Own Use	102,835	
73	Gains/(Loss) on Investment Assets	136	
(16,293)	**Net Movement in Funds**	**77,471**	
	Reconciliation of Funds		
209,962	Total Funds Brought Forward	193,669	
193,669	**Total Funds Carried Forward**	**271,140**	

BALANCE SHEET as at 31 March 2015

at 31 March 2014 £	at 31 March 2014 £		at 31 March 2015 £	at 31 March 2015 £	Notes
189,533		Fixed Assets	266,867		**5**
3,832		Investments	3,969		6
	193,365				
		Current Assets			
304		Short Term Investment in SBC Loans Fund	304		
	304	**Net Current Assets**		**304**	
	193,669	**Total Assets Less Current Liabilities**		**271,140**	
		The Funds of the Charity			
193,669		Restricted Funds	271,140		
	193,669	**Total Funds**		**271,140**	

All of the Charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 form part of these Financial Statements.

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
29 September 2015

CASH FLOW for the year ended 31 March 2015

2013/14 £		2014/15 £
	Reconciliation of Operating Profit to Net Cash Flow from Operating Activities	
(16,366)	Net Outgoing Resources before Other Recognised Gains and Losses	**(25,500)**
16,366	Adjustment for Depreciation Charges which are non-cash movements	25,000
0	**Net Cash Inflow/(Outflow) from Operating Activities**	**0**

2013/14 £		2014/15 £
	Cash Flow Statement	
0	**Net Cash Inflow/(Outflow) from Operating Activities**	**0**
0	**Increase / (Decrease) in Cash in Period**	**0**

Reconciliation of Net Cash Flow to Movement in Net Funds

	As at 1 April 2014 £	Movement £	**As at 31 March 2015 £**
Cash at Bank and In Hand	0	0	**0**
	0	0	**0**

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 in accordance with applicable accounting standards and under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Charities and Trustee Investment (Scotland) Act 2005, regulation 8 of the Charities Accounts (Scotland) regulations 2006 (as amended) and the Statement of Recommended Practice: Accounting and reporting by Charities issued in February 2006, except for the non-recognition of donated assets (see donations and gifts below).

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

Funds are classified as Restricted Funds, defined as follows:

Restricted funds are funds subject to specific conditions, which may be declared by the donors or with their authority or created through legal processes, but still within the objects of the charity.

Voluntary Income

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

The only resource expended was a grant issued for charitable activities. There were no costs associated with the costs of generating funds and governance costs

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.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, A revaluation was undertaken on 1st April 2014. 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

Fixed asset investments are stated at market value. 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

2013/14 £		2014/15 £
21	Interest Receivable	1
42	Income from Investment Portfolio	101
63		**102**

2 Charitable Activities during 2014/15

A single grant is made to Scottish Borders Council 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 are 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. This has been revalued on 1st April 2014 as part of the cycle of revaluations and has increased in value by £102,834.

The movement in the value of Tangible Fixed Assets has been driven by the following movements:

	£
Opening Balance at1 April 2014	**189,533**
Depreciation for year	(25,500)
Surplus on Revaluation	102,834
Closing Balance at 31 March 2015	**266,867**

5 Investments

All investments are through regulated funds or are traded on a recognised investment exchange.

At 31 March 2015 all investments were with the Newton Real Return Fund.

INDEPENDENT AUDITOR'S REPORT
to the Trustees of Ormiston Trust for Institute and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Ormiston Trust for Institute for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of the financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor’s Report to the Trustees of Ormiston Trust for Institute and the Accounts Commission for Scotland (continued)

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Hugh Harvie,
for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

ADDITIONAL INFORMATION

Contact Details

For further information on the Ormiston Trust for Institute, 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

annual report and financial statements

Scottish Borders Council Charitable Trusts

Charity Registration Number: SC043896

For the year to 31 March 2015

6

Scottish Borders COUNCIL

Contents

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 has now been completed during 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, which the Council. The next phase of the work of re-organising the remaining funds held within this fund will be undertaken during 2015/16 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 2015.

Reference and Administrative Information

Charity Name Scottish Borders Council Charitable Trusts

Charity registration number SC043896

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
Frances 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 KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the Charity.

All financial transactions go through the Council's books of account and their Bankers are the Bank of Scotland, Newtown St Boswells, Melrose.

Structure

The Charity comprises some 76 varied funds previously considered charities by the Inland Revenue. Their Charitable status was regularised at the end of 2012/13 by 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, they have determined that this is in terms of the Corporate Governance of the Council, namely the code as comprises:-

- Financial Regulations;
- Code of Corporate Governance;
- Procedural Standing Orders;
- Scheme of Administration; and
- 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 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.

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.

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.

A number of the funds have made donations to eligible beneficiaries during the year to 31 March 2015 totalling £15,738 including contributions through area based Education Trusts as follows:

• Further Education including overseas study and travel	£7,260
• National Youth Orchestra expenses	£810
• Other dance and music study costs	£2,170
• Contributions towards Secondary school trips	£ 306

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 Financial Statements.

Funding and reserves

Investments Per the Councils Common Good and Trust Fund investment strategy the main balance of funds are invested in the Newton Real Return Fund.

Policy on Reserves The Council treats the Charities' funds in line with recognised national governance and applicable codes of practice.

Plans for the Future

Work will be undertaken during 2015/16 to re-organise these funds, in consultation with OSCR to enable the funds to be more easily used for their charitable purposes.

The report was signed on behalf of the Trustees by

David Parker
Trustee
Scottish Borders Council Charitable Trusts
29 September 2015

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS

The Trustees are responsible for preparing the Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires that the trustees prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP (2005);
- 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 charitable company will continue in its activities.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL ACTIVITIES
(Including an Income and Expenditure Account)
for the year ended 31 March 2015

2013/14 Restricted Funds £		2014/15 Restricted Funds £	*Notes*
	Incoming Resources		
	Incoming Resources from Generated Funds		
138	Voluntary Income	209	*1*
23,787	Interest and Investment Income	30,329	*2*
537,951	Other Incoming Resources	0	
561,876	**Total Incoming Resources**	**30,538**	
	Resources Expended		
(14,022)	Charitable Activities	(15,738)	*3*
(0)	Governance Costs	(0)	*4*
(14,022)	**Total Resources Expended**	**(15,738)**	
547,854	**Net Incoming Resources before Other Recognised Gains and Losses**	**14,800**	
	Other Recognised Gains/(Losses)		
9,833	Gains/(Loss) on Investment Assets	19,546	
557,687	**Net Movement in Funds**	**34,346**	
	Reconciliation of Funds		
0	Total Funds Brought Forward	557,687	
557,687	**Total Funds Carried Forward**	**592,033**	

BALANCE SHEET as at 31 March 2015

at 31 March 2014 £		at 31 March 2015 £	£	Notes
	Fixed Assets			
545,903	Investments	565,449		*5*
			565,449	
	Current Assets			
	Investments			
11,784	Short Term Investments in SBC Loans fund	26,584		*6*
11,784	**Net Current Assets**		**26,584**	
557,687	**Net assets**		**592,033**	
	The Funds of the Charity			
557,687	Restricted Funds	592,033		*8*
557,687	**Total Funds**		**592,033**	

All of the Charity's activities are continuing.

The Accounting Policies on pages 10 and the Notes on pages 11 to 13 form part of these Financial Statements.

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
29 September 2015

CASH FLOW for the year ended 31 March 2015

2013/14 Restated £		2014/15 £
	Reconciliation of Operating Profit to Net Cash Flow from Operating Activities	
547,854	**Net Incoming Resources before Other Recognised Gains and Losses**	14,800
(537,951)	Other Incoming Resources	0
9,903	**Net Cash Inflow/(Outflow) from Operating Activities**	**14,800**

2013/14 Restated £		2014/15 £
	Cash Flow Statement	
9,903	**Net Cash Inflow/(Outflow) from Operating Activities**	**14,800**
	Investing Activities	
(9,903)	(Deposit)/Withdrawal from Short Term Investments	(14,800)
0	**Increase / (Decrease) in Cash in Period**	**0**

Reconciliation of Net Cash Flow to Movement in Net Funds

	As at 1 April 2014 £'000	Movement £'000	**As at 31 March 2015 £'000**
Cash at Bank and In Hand	0	0	**0**
	0	0	**0**

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 in accordance with applicable accounting standards and under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Charities and Trustee Investment (Scotland) Act 2005, regulation 8 of the Charities Accounts (Scotland) regulations 2006 (as amended) and the Statement of Recommended Practice: Accounting and reporting by Charities issued in February 2006, except for the non-recognition of donated assets (see donations and gifts below).

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

Funds are classified as Restricted Funds, defined as follows:

Restricted funds are funds subject to specific conditions, which may be declared by the donors or with their authority or created through legal processes, but still within the objects of the charity.

Voluntary Income

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

The only resource expended was a grant issued for charitable activities. There were no costs associated with the costs of generating funds and governance costs.

Investments

Fixed asset investments are stated at market value. Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial yea, 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 Voluntary Income

Restricted

The voluntary income is from a number of un-registered funds, managed by Scottish Borders Council, which grant their annual income to the Jedburgh Coal Fund.

2 Investment Income

2013/14 £		**2014/15 £**
2,140	Interest Receivable	50
21,647	Income from Investment Portfolio	30,279
23,787		**30,329**

3 Charitable Activities during 2014/15

The Charitable activities during 2014/15 are shown in note 8 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 2015 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 Creditors: Amounts Falling Due Within One Year

There were no Creditors at 31 March 2015.

8 Restricted Funds

	Balance at 31 March 2014 £	Income £	Expenditure £	**Balance at 31 March 2015 £**
Waugh Bequest	851	55	25	**881**
Dalrymple's Mortification	1,459	89		**1,548**
Raith's Mortification	4,381	271		**4,652**
William Forrester's Bequest	23,952	1,483	627	**24,808**
Robert Watson Fund	52,183	3,231	1,367	**54,047**
Kenneth Cochrane Library Fund	1,542	94		**1,636**
Ex Provost Mercer's Bequest No1	1,077	67	28	**1,116**
G D Gibson's Bequest	2,390	148	63	**2,475**
Clive Craig-Brown Bequest	15,245	930		**16,175**
Thomas B Williamson Bequest	2,180	133		**2,313**
George D Gibson's Bequest	9,486	579		**10,065**
T J S Roberts Trust	11,303	689		**11,992**
Sir John Robert's Bequest	5,961	364		**6,325**
Mrs Adams Bequest	360	53		**413**
Joshua Goodfellow's Bequest	321	21		**342**
Mrs Hobkirk's Fund	2,600	159		**2,759**
Wm Brown's Bequest	296	18	8	**306**
Alex Grieves Bequest (1)	417	26	11	**432**
Alex Grieves Bequest (2)	285	18	7	**296**
John Hunter's Bequest	235	15	6	**244**
John Murray's Bequest	94	6	2	**98**
Ex Provost Mrs Laidlaw's Benifaction	205	13	5	**213**
Robert Meggit's Bequest	1,228	76	32	**1,272**
James West Brown's Bequest	82	5	2	**85**
Henry Laidlaw Trust	1,847	114	48	**1,913**
John Herbetson Bequest	1,507	93	39	**1,561**
Mrs M Cheetham Bequest	171	11	4	**178**
Jedburgh Coal Fund	9,895	805		**10,700**
Edgar Bequest	1,677	102		**1,779**
Elliot Mortification	2,911	178		**3,089**
McKinley Trust	511	31		**542**
R D Forman's Bequest	23,539	1,437		**24,976**
Ewan Trust	2,959	181		**3,140**
William Laidlaw Memorial Fund	454	28		**482**
Longformacus Public Park	258	16	7	**267**
Coldstream War Memorial	61	4	2	**63**
Lands at Calfward	24	1		**25**
Dunlop Bequest	96,669	5,901		**102,570**
Ayton War Memorial Fund	5,265	322	136	**5,451**
I Wallace Bequest	612	49	27	**634**
Marjoribanks Bequest	3,645	229		**3,874**
Peebles Public Library	257	16	7	**266**
Brown Bequest	388	24		**412**
Berwickshire Educational Trust	5,549	731	224	**6,056**
C W Dunnet Award	290	32	18	**304**
Jane Grieve Endowmwnt	1,144	110		**1,254**
Jean Kincaird Grieve Endowment	1,514	140		**1,654**
Sub-total carried to next page	*299,280*	*19,099*	*2695*	***315,683***

Restricted Funds (continued)	Balance at 31 March 2014	Income	Expenditure	**Balance at 31 March 2015**
	£	£	£	**£**
Sub-total brought forward from next page				
J Purves Bequest	2,706	258	133	**2,831**
Hans D Langmack Prize Fund	530	55	30	**555**
Coldstream Guards Prize	853	99	58	**894**
Special Air Service Reg. Fund	1,155	120	64	**1,211**
F W Dobson VC	4,457	473	258	**4,672**
Roxburghshire Educational Trust	93,840	12,155	7,647	**98,348**
Andrew, Agnes & John Kyle	786	93	30	**849**
Miss A T Waldie Trust	20,818	1,447	495	**21,770**
J A S Henderson Memorial Scholarship	15,877	2,845		**18,722**
Sir Walter Leitch Scholarship	14,737	2,844		**17,581**
Mrs Clelland Memorial Prize	820	74		**894**
Peeblesshire Educational Trust	21,037	2,770	1,691	**22,116**
Mr & Mrs W F Johnstone Fund	714	61		**775**
Col. Jem Richard Prize Fund	2,547	239		**2,786**
Dr Milne Memorial Fund	1,197	110		**1,307**
James Robertson Trust	849	56		**905**
John Jamieson Prize Fund	558	50		**608**
Walter Geddes Prize Fund	1,089	97		**1,186**
Geoffrey Simpson Bequest	15,225	1,976	1,237	**15,964**
Selkirkshire Educational Trust	11,323	1,510	1,210	**11,623**
Mary Dickson Prize Fund	770	79	44	**805**
Murray Medal Fund	2,726	271	146	**2,851**
Campbell Calderhead Prize	669	65		**734**
Kennedy Medal Fund	515	51		**566**
Simpson Dalwhinny Fund	21,567	1,904		**23,471**
Ferguson Dalwhinny Fund	15,757	961		**16,718**
Jedburgh Public Library Fund	1,409	86		**1,495**
Kelso Library Book Fund	573	35		**608**
Selkirk Library Fund	3,303	202		**3,505**
Total	**557,687**	**50,084**	**15,738**	**592,033**

INDEPENDENT AUDITOR'S REPORT
to the Trustees of Scottish Borders Council Charitable Trusts and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Scottish Borders Council Charitable Trusts for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of the financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements which 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Independent auditor's report to the trustees of Scottish Borders Council Charitable Trusts and the Accounts Commission for Scotland (continued)

Opinion on other prescribed matter

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Hugh Harvie,
for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

ADDITIONAL INFORMATION

Contact Details

For further information on the Scottish Borders Council Charitable Trusts, 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

annual report and financial statements

Bridge Homes LLP

For the year the period from 7 February 2014 to
31 March 2015

7

Scottish Borders COUNCIL

Contents

MEMBERS' ANNUAL REPORT

The Members present their Annual Report and the Financial Statements for the year ended 31 March 2015.

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 period and to the date of these financial statements were as follows:

Scottish Borders Council

Scottish Future Trust Investments Ltd

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 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
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

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

In the period to 31 March 2015, Bridge Homes has purchased 10 homes, being 4 at Castle View, Ayton and 6 at Queen Elizabeth Drive, Galashiels. All properties have been rented out and interim property management arrangements put in place. Contracts have been agreed with developers to provide a further 13 homes in Peebles, 6 in Innerleithen and 8 in Denholm. Offers to purchase have been issued to developers to provide 8 homes in Kelso, 7 in Lilliesleaf and 10 in Cardrona.

A further 45 properties in the Borders are currently under discussion with developers. In addition, with the extension to the project to 2019, a further 30 properties across 3 Council owned development sites are being pursued.

This report was signed on behalf of the Members by

David Robertson CPFA
Designated Member
Scottish Borders Council
29 September 2015

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 period ended 31 March 2015

	07/02/14 to 31/03/15 £	*Notes*
Turnover	**11,581**	*1*
Cost of Sales	(3,502)	*2*
Gross Profit	**8,079**	
Administrative Expenses	(10,610)	*3*
Operating Profit/(Loss)	**(2,531)**	
Interest Payable & Similar Charges	(9,584)	*4*
Profit/(Loss) For The Financial Period Available For Discretionary Division Among Members	**(12,115)**	*5*

The LLP's turnover and expenses all relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the period ended 31 March 2015

	07/02/14 to 31/03/15 £
Profit/(Loss) For The Financial Period	(12,115)
Total Recognised Gains/(Losses) For The Financial Period	**(12,115)**

BALANCE SHEET as at 31 March 2015

	as at 31 March 2015 £	£	*Notes*
Fixed Assets			
Investment Properties	1,289,780		*6*
		1,289,780	
Current Assets			
Debtors	7,583		*7*
Cash at Bank	4,086		
	11,669		
Creditors			
Amounts falling due within 1 year	(23,782)		*8*
Net Current Assets/(Liabilities)		**(12,113)**	
Net Assets/(Liabilities) attributable to Members		**1,277,667**	
Represented By:			
Loans and Other Debts due to Members		986,380	*9*
Members' Other Interests			
Members' Capital	303,402		*10*
Profit and Loss Reserve	(12,115)		
		291,287	
Total Members' Interests		**1,277,667**	

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 26 June 2015 and are signed on their behalf by:

David Robertson CPFA
Designated Member
Scottish Borders Council
29 September 2015

CASH FLOW for the period ended 31 March 2015

	07/02/14 to 31/03/15	
	£	£
Reconciliation of Profit/(Loss) to Net Cash Flow from Operating Activities		
Profit/(Loss) for the Financial Period	(12,115)	
Initial Members' Capital	2	
(Increase)/Decrease in Debtors	(7,583)	
Increase/(Decrease) in Creditors due within 1 year	23,782	
Net Cash Inflow/(Outflow) from Operating Activities		**4,086**

	07/02/14 to 31/03/15	
	£	£
Cash Flow Statement		
Net Cash Inflow/(Outflow) from Operating Activities		**4,086**
Investing Activities		
Purchase of investment property	(1,289,780)	
Capital received	303,400	
Net Cash Inflow/(Outflow) from Investing Activities		**(986,380)**
Financing Activities		
Cash received from loans and other borrowing	986,380	
Net Cash Inflow/(Outflow) from Financing Activities		986,380
Increase / (Decrease) in Cash		**4,086**
Movement in Cash in Period		**4,086**

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.

Investment Properties

In accordance with SSAP 19, investment properties are not depreciated or amortised but are revalued every year and the aggregate surplus or deficit is transferred to a revaluation reserve. Where there is a permanent impairment in value, the deficit is charged to profit and loss. This treatment, as regards certain of the LLP's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the members consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Where the members consider that any impairment is temporary the revaluation amount is charged against the revaluation reserve.

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.

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

	07/02/14 to 31/03/15 £
Rental Income	4,121
Revenue Grant	7,460
	11,581

2 Cost of Sales

	07/02/14 to 31/03/15 £
Management Charges	2,565
Insurance	457
Utilities	480
	3,502

3 Administrative Expenses

	07/02/14 to 31/03/15 £
Accountancy	2,254
Audit	3,000
Legal Fees	1,792
Miscellaneous	3,564
	10,610

4 Interest Payable & Similar Charges

	07/02/14 to 31/03/15 £
Bank Charges	14
Interest Payable to Local Authority	9,570
	9,584

5 Members' Interests

	07/02/14 to 31/03/15 £
Scottish Borders Council	12,115
Scottish Futures Trust Investments Ltd	-
	12,115

6 Investment Property

	2014/15 £
Additions at Cost	1,289,780
NBV at 31 March 2015	**1,289,780**

All investment property has been purchased within the current financial year. The Members therefore consider that the purchase cost is equivalent to open market value as at 31/03/15.

7 Debtors

	2014/15 £
Unpaid Rental Income	121
Grant for Central Support Costs	7,460
Other Debtors	2
	7,583

8 Creditors: Amounts Falling Due Within One Year

	2014/15 £
Management Charges	2,565
Insurance	457
Utilities	480
Audit	3,000
Accountancy	2,254
Legal Fees	1,792
Miscellaneous	3,664
Interest Payable to Local Authority	9,570
	23,782

9 Loans & Other Debts Due To Members

	2014/15 £
Loan from Local Authority	986,380

10 Members' Capital

	2014/15 £
Initial Capital - Scottish Borders Council	1
Initial Capital - Scottish Futures Trust Investments Ltd	1
Capital Grant - Scottish Borders Council	303,400
	303,402

11 Reserves

	Members Capital (Classified As Equity) £	Profit & Loss Reserve £	Loans & Other Debts Due To/From Members £	Total £
Balance at 1 April 2014	0	0	0	0
Profit/(Loss) For The Period Available for Discretionary Division Among Members		(12,115)		(12,115)
Loan Funding Provided By Members			986,380	986,380
Capital Introduced By Members	303,402			303,402
Balance at 31 March 2015	**303,402**	**(12,115)**	**986,380**	**1,277,667**

12 Related Party Transactions

Throughout the period Bridge Homes was controlled by the members.
During the period, Bridge Homes entered into the following transactions with Scottish Borders Council:

	Transaction £	Debtor/ (Creditor) At 31 March 2015 £
Loan	986,380	(986,380)
Capital Funding	303,400	-
Revenue Grant	7,460	7,460
Service Charge	7,460	(7,460)
Loan Interest	9,570	(9,570)
	1,314,270	**(995,950)**

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

We have audited the financial statements of Bridge Homes LLP for the period ended 31 March 2015 set out on pages 6 to 13. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 5, 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 web-site 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 the LLP's affairs as at 31 March 2015 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.

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 (senior statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
30 September 2015

CONTACT INFORMATION

For further information on Bridge Homes LLP, please contact

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Corporate Finance Manager	E-mail: lmirley@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

cutting through complexity

Scottish Borders Council Pension Fund

Annual audit report to Scottish Border Council as administering authority for Scottish Borders Council Pension Fund and the Controller of Audit

Audit: year ended 31 March 2015

18 September 2015

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About this report

This report has been prepared in accordance with the responsibilities set out in Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Scottish Borders Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the circumstances set out in the executive summary: scope and responsibilities.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Headlines

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Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for the audit.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance,* this report summarises our work in relation to the financial statements for the year ended 31 March 2015.

We wish to record our appreciation of the continued co-operation and assistance extended to us during the course of our work.

Area	Summary observations	Analysis
Strategic overview		
Key issues and update	The Triennial Funding Valuation of Scottish Borders Pension Council Fund ("the Pension Fund") as at the March 2014 was undertaken during 2014/15. The outcome of the 2014 Valuation was a funding level of 101% which resulted in the Fund being no longer in a funding deficit position compared to 96% deficit funding level of 2011 Valuation. In addition to the Council itself, there are two other scheduled bodies and 12 admitted bodies participating in the Pension Fund; the Council accounts for 9,086 out of a total membership of 9,997 (93%) in the Pension Fund.	Page 6
Financial position	The net withdrawals from dealings with members for 2014-15 was £1.4m which has increased from £0.8m in 2013-14 during the year. This is primarily due to the number of pensioners having increased in contrast to the relatively static position of the number of contributing members. Investments showed strong positive returns owing to favourable market conditions evidenced during 2014-15 with the net return on investments of £60.4m which has increased from £40.9m in 2013-14. The closing investment assets for 2014-15 were at £545.1m which has increased from £486.1m in 2013-2014.	Pages 7-8
Financial statements and accounting		
Audit conclusions	Our approach reflected our assessment of financial statement level risks and consideration of audit focus areas. These have been concluded on satisfactorily. We have issued an unqualified audit opinion on the 2014-15 financial statements. The management commentary, annual governance statement, statement of responsibilities for statement of accounts and statement of accounts were received by the statutory date and were supported by high quality working papers.	Page 10
Significant risks and audit focus areas	The areas highlighted below are the specific audit focus areas identified within our audit strategy and additional areas identified during the course of the audit: ■ Fraud risk from management override of controls. The areas of audit focus were agreed with the management as part of our planning procedures and audit work has been completed to satisfy the requirements of ISA 330 'The auditor's procedures in response to assessed risks', including tests of key financial controls. In respect of each matter, we are content with management's judgements and accounting treatment.	Page 11

Headlines (continued)

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Financial statements and accounting (cont)		
Area	**Summary observations**	**Analysis**
Accounting policies	There have been no changes to accounting policy applied by client in 2014-15. No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements.	Page 12
Going concern	The annual accounts have been prepared on a going concern basis. Management consider it appropriate to adopt a going concern basis for the preparation of these financial statements.	Page 12
Management Commentary	We are satisfied that the information contained within the Management commentary is consistent with the financial statements.	Page 12
KPMG Benchmarking analysis		
Benchmarking analysis	We have performed work to gather information from management for our benchmarking analysis which will analyse how controls of the Fund compare to other schemes of a similar size and what we consider to be best practice. This has highlighted a number of areas which require further interpretation and consideration before appropriate management responses can be finalised. We intend to report our findings on this matter at the next audit committee meeting.	Not Applicable
Governance and narrative reporting		
Governance	Over-arching and supporting corporate governance arrangements have been amended significantly under the new governance regulations to provide a more enhanced sound framework for organisational decision-making.	Page 14
Internal controls	Testing of the design and operation of financial controls over significant risk was undertaken as part of our audit and noted that controls relating to financial systems and procedures are designed appropriately and operating effectively.	Page 16

Scope and responsibilities

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Purpose of this report

The Controller of Audit has appointed KPMG LLP as auditor of Scottish Borders Council under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Pension Fund and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the Pension Fund at the outset of our audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

Accountable officer responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out the Pension Fund's responsibilities in respect:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit and risk committee, together with previous reports to the Pension Fund Committee throughout the year, discharges the requirements of ISA 260.

Strategic overview

Our perspective on key business issues and financial position

Key business issues

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Key high level summary of:

- **The main matter affecting the pension fund in 2014-15 is the triennial valuation. The funding level at the 31 March 2014 was 101% which corresponded to a surplus of £2.9m.**
- **Our team of in-house actuaries reviewed IAS 26 Assumptions proposed by the Fund. These are considered to be appropriate.**

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Triennial Valuation

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 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 at 31 March 2014 was 101%, which was above the valuation as at 31 March 2011 and corresponded to a surplus of £2.9m.

The table below shows the results of the triennial valuation:

Past Service Funding Position

	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 next detailed actuarial valuation will be carried out for the Fund as at 31 March 2017.

IAS 26 Assumptions Review

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.

Our team of in-house actuaries reviewed assumptions used in the valuation. It is understood from the Barnett Waddingham correspondence that:

- the assumptions considered in this report are based on market conditions at 31 March 2015; and
- the average duration of the liabilities is 19 years at the period ending 31 March 2015.

Overall the assumptions proposed by the employer can be considered to be reasonably balanced.

Financial position - Fund Account for the year 2014-15

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Management does not budget financial performance of the Pension Fund due to the nature of income and expenditure.

The net withdrawals from dealings with members in the year ended 2014-15 was £1.4m (2013-14: £0.8m).

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Investments showed strong positive returns owing to favourable market conditions evidenced during 2014-15 with net return on investments of £60.4m (2013-14: £40.9m).

The net increase in fund during the year ended 2014-15 was £59.0m (2013-14: £40.1m).

Financial position

Current membership of the Fund is 9,797 of which 4,410 are actively contributing and 3,006 are in receipt of pension benefits. There has been a relatively static position in relation to active contributing membership and a continuing rise in the number of pensioners. Total contributions have increased by £0.7m and benefits payable have increased by £1.3m during the year. This is has led to the net withdrawal position from dealing with members.

Net return on investment has increased to £60.4m in 2014-15 (2013-14: £40.1m) primarily due to the positive change in market value of investments in line with the investment review performed by the Fund's investment consultants, Aon Hewitt. Investments return are monitored by the Pension Fund Committee throughout the year (from 2015/16 the detailed review of individual investment manager performance has been delegated by the Pension Fund Committee to the Performance and Investment Sub-Committee) and recent historic performance has been strong.

Management does not budget financial performance of the Pension Fund due to the nature of income and expenditure.

Fund account

£m	**2015**	**2014**
Contributions and benefits		
Contributions receivable	18.2	17.1
Transfers in	0.7	1.1
	18.9	**18.2**
Benefits payable	(19.1)	(17.2)
Payment on account of leavers	(0.8)	(1.4)
Administration expenses	(0.4)	(0.4)
	(20.3)	**(19.0)**
Net withdrawals from dealing with members	(1.4)	(0.8)
Return on investments		
Investment income	4.6	5.2
Change in market value of investments	58.4	37.8
Investment management expenses	(2.6)	(2.1)
Net returns on investments	60.4	40.9
Net increase in the fund	59.0	40.1
Opening Net Assets of the Scheme	**486.1**	**446.0**
Closing Net Assets of the Scheme	**545.1**	**486.1**

Financial position – Net Assets Statement (continued)

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Investments returns are monitored throughout the year and the performance of investment managers is subject to regular review against benchmarks.

Total net assets have increased by £59.0m during the year ended 31 March 2015 (2013-14: £40.1m).

The main reason of the increase in the investment valuations is the strong performance of the assets and favourable market conditions.

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Net Assets Statements as at 31 March 2015

The Fund return over 1 year was 12.3% p.a. compared to a benchmark of 11.8% p.a.

Return on Investment	1 Year rolling return Fund %	Bench[1] %	LA[2] %
Total Fund including Currency Hedging	12.3	11.8	13.2
Global Equities including UK	17.5	19.1	18.3
UK Equities	6.9	6.6	6.3
Total Bonds	16.7	17.1	11.4
UK Government Bonds	26.2	22.7	14.5
UK Corporate Bonds	12.4	13.1	13.0
Property	17.6	10.4	15.8
Alternatives	10.8	4.6	12.5
Cash	2.4	0.3	1.8

Key:
*[1] **Bench**: Benchmark Return which reflects manager's within the mandate given to them from the Statement of investment principles.*
*[2] **LA**: Local Authority Weighted Average Return based on WM Company's League Tables for period to 31 March 2014.*

The Global Equities 1 year return was negatively impacted upon by UBS prior to the divestment from them in the first half of the year. Morgan Stanley had only one quarter of 2014/15 where they produced a favourable contribution to the overall performance of the Fund and this was offset by strong performance by Baillie Gifford's Global Equity mandate over the year. Surplus cash of £4m was invested into the UBS Property Mandate over the year as opportunities arose to invest in the desired investment funds.

The performance of the Fund in all of the Asset classes with the exception of Global Equities exceeded the 3 year benchmark return. Divestment from bonds/fixed income mandate by transitioning UBS to M&G and the Global Equity Mandate from UBS to Harris Associates were completed in November and December 2014.

Net assets statement		
£m	**2015**	2014
Fixed Interest – Public Sector	-	15.3
Equities	216.5	186.6
Managed Funds:		
Property	28.7	21.3
Global equities	76.2	65.0
UK equities	65.3	61.2
Bonds	18.4	37.2
Diversified Fixed Income	39.9	-
Alternatives	93.8	84.0
Open Ended Investment Contracts	1.7	1.4
Derivatives – Forward Foreign Exchange	(2.5)	(0.1)
Cash Deposits	6.5	11.7
Other investment balances	0.7	1.0
Current Assets and Liabilities		
Cash balances	1.1	2.3
Contributions due form employers	0.1	0.1
Current assets	0.1	0.3
Current liabilities	(1.4)	(1.2)
Total net assets	**545.1**	**486.1**

Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

Audit conclusions

DRAFT

We have issued an unqualified audit opinion.

The financial statements, including the governance statement, were made available on a timely basis and were accompanied by high quality working papers.

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Audit conclusions

Our audit work is complete. Following approval of the financial statements by the Pension Fund Committee we have issued an unqualified opinion on the truth and fairness of the state of the Pension Fund's affairs as at 31 March 2015. We also have issued an unqualified opinion on the regularity of transactions within the year. There are no matters identified on which we are required to report by exception. There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content, as reported in appendix one.

In gathering the evidence for our opinion we have:

- performed controls testing and substantive procedures to ensure that key risks to the financial statements have been covered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the financial statements through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended Pension Fund Committee to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

- High quality working papers and full draft financial statements were provided on the statutory deadline of 30 June 2015. This included the management commentary and governance statement. The latter had already been considered, along with supporting evidence, and approved by the Pension Fund Committee at the Joint meeting of the Pension Fund Committee and Pension Board, and then by the Audit & Risk Committee.
- In advance of our audit fieldwork, we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. The standard of documentation was good.
- The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014, replacing regulations which had applied since 1985. The regulations contain provisions for the unaudited annual financial statements as submitted to the auditor to be considered by the audit and risk committee no later than 31 August 2015, and the audited financial statements to be presented to the audit and risk committee for consideration and approval prior to auditor signature before 30 September 2015.

Significant risks and audit focus areas

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The significant areas of risk identified in our audit strategy were in respect of:

- **management override of controls; and**

and other focus areas of:

- **fraud risk from income recognition.**

We report on the audit focus area of valuation of investment assets and other current assets.

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We summarise below the risks of material misstatement as reported within the audit strategy document along with additional risks identified during the course of the audit. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the audit and risk committee may better understand the process by which we arrived at our audit opinion.

We have no changes to the risk or our approach to addressing the assumed ISA risks of fraud in management override of controls or revenue recognition fraud risk.

Focus Areas	Our response	Audit findings
Valuation of investment assets The investment assets reported in the net assets statements, managed by the fund managers were valued at their market price as at 31 March 2015. The Pension Fund's investment assets, managed by the fund managers were misstated in the financial statements by error. ■ A misstatement undervaluing the investment assets by £0.1m(net) was identified during the audit. This increased investments assets at 31 March from £544.3m in the draft financial statements to £544.4m. ■ Management actioned the misstatement mentioned in appendix two by adjusting for this proposed audit adjustment.	To gain assurance over the valuation of the year end investments, we obtained third party confirmations over 100% investment of the year end valuation of investments from the fund managers directly and compared it to the valuation on draft financial statements. We tested all the investments and performed pricing audit procedures over listed investments of the Fund. The year end bid values were assessed using our internal research tools to determine the reasonableness of the year end fund manager's valuation.	We found differences between the direct confirmations from the fund managers and reported values on the draft financial statements. A schedule of the differences was presented to the management as a proposed audit adjustment as set out in appendix two.
Other current assets A misstatement overstating the other current assets by £0.26m was identified during the audit. This decreased other current assets at 31 March 2015 from £0.31m in the draft financial statements to £0.05m. Management actioned the misstatement mentioned in appendix two by adjusting for this proposed audit adjustment.	We identified the audit misstatement whilst reconciling the financial statements to the trial balance for year ended 31 March 2015.	An adjustment was proposed to decrease other current assets as set out in appendix two.

Accounting policies

DRAFT

There have been no substantive changes to the financial reporting framework as set out in the *Code of practice on Local Authority Accounting in the United Kingdom 2014-15*

There have been no significant changes to accounting policies in 2014-15.

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Accounting framework and application of accounting policies		
Area	**Summary observations**	**Audit findings**
Code of practice on Local Authority Accounting in the United Kingdom 2014-15 ("the Code")	The 2014-15 financial statements have been prepared in accordance with the Code which is based upon International Financial Reporting Standards ("IFRS"). The 2014-15 Code has a number of amendments from the 2013-14 version. Management have reflected these changes to the reporting requirements in the financial statements, where appropriate. The amendments include: ■ adoption of the new group accounting standards IAS 26; ■ amendments in respect of the restated opening balance sheet; and ■ changes to the requirements for accounting for combinations of bodies and transfer of functions.	We considered whether the impact of adoption of the new accounting would have a material effect on the Fund's financial statements. No material matters were noted.
Going concern	Management consider it appropriate to adopt a going concern basis for the preparation of these financial statements. The balance sheet shows that at 31 March 2015 the Fund has net assets of £545.1m compared to a net assets of £486.1m in 2013-14.	Given the nature of funding position of the Fund of a surplus of 101%, we are satisfied that it is appropriate for the financial statements to be prepared on the basis adopted.
Management commentary	The financial statements form part of the annual report for the year ended 31 March 2015. We have reviewed the content of the management commentary against the disclosure requirements and are content with the proposed reports. The overall quality of the management commentary was good with clear presentation throughout. We provided management with some relatively minor suggestions relating to how the reports could be enhanced and where additional information disclosures should be made.	We are required to consider information related to the membership of the Fund included as part of the Management commentary. We are satisfied that the information contained within the Management commentary is consistent with the financial statements.

Governance and narrative reporting

Our overall perspective on your narrative reporting, including the management commentary, annual governance statement, governance compliance statement and risk management statement.

Controls findings from our audit.

Corporate governance arrangements

DRAFT

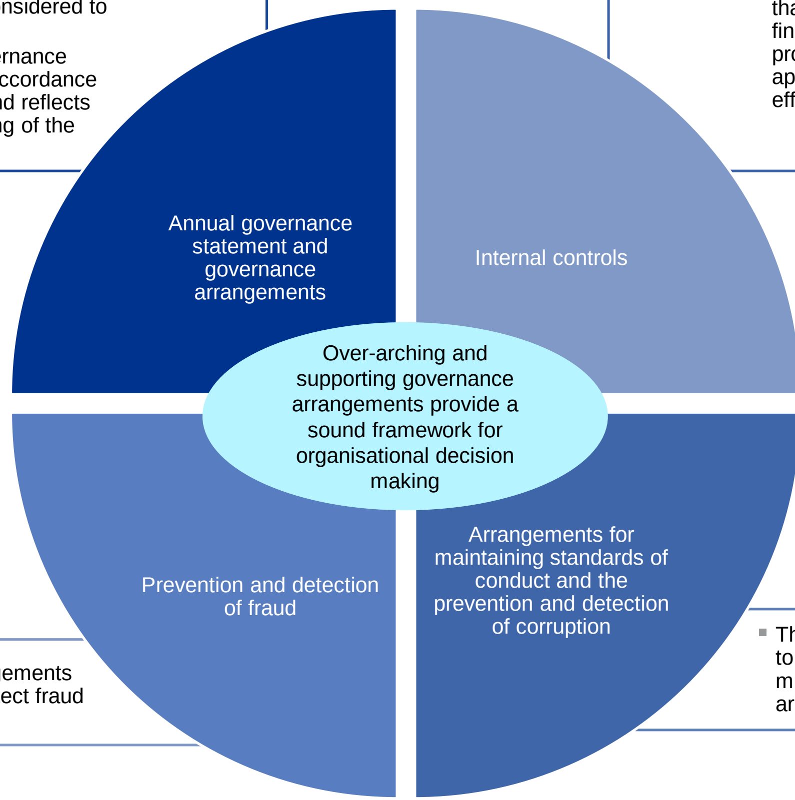
We considered the Fund's corporate governance arrangements against a number of key areas which we consider to make up an effective governance framework.

Our audit findings against each key area are provided opposite.

Page 321

- The governance framework of the Fund is considered to be appropriate.
- The annual governance statement is in accordance with guidance and reflects our understanding of the organisation.

- Our work concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively.



- The Fund's arrangements to prevent and detect fraud are appropriate.

- The Fund's arrangements to prevent and detect misconduct and corruption are appropriate.

Corporate governance arrangements (continued)

DRAFT

Over-arching and supporting corporate governance arrangements have been amended under the new governance regulations to provide a more enhanced sound framework for organisational decision-making.

Annual governance statement

The Fund includes an annual governance statement within its annual accounts. The following elements have been included.

The governance compliance statement for the Fund was approved by the Pension Fund Committee on 30 June 2015 and is consistent with our understanding of the governance arrangements. The statement should be subject to an annual review by the Pension Fund Committee and action taken to enhance any areas which only report partial or non-compliance where appropriate.

The overall quality of the management commentary was good with clear presentation throughout. We provided management with some relatively minor suggestions relating to how the reports could be enhanced and where additional information disclosures should be made to meet the requirements of the Local authority Accounts (Scotland) regulations 2014.

Governance arrangements

The Fund has a Pension Fund Committee to ensure sound governance arrangements. The Scottish Government published new governance regulations for the pension fund in February 2015 which required the set up and operation of local pension boards by 1 April 2015 and introduced a national scheme advisory board to advise Scottish ministers and individual pension schemes. The new governance arrangements extended to pension administration and, in response to this, a Pension Board was created to assist the Council (as administering authority) which comprises four scheme employer representatives and four trade union representatives. The Investment and Performance Sub-Committee has also been established under the Pension Fund Committee and its remit is set out in the Scheme of Administration to monitor investment performance. The membership of the Sub-Committee is comprised of the seven elected members from the Pension Fund Committee and two (non-voting) members from the Pension Board.

We have updated our understanding of the governance framework and documented this though our overall assessment of the Fund's risk and control environment. We consider the governance framework to be appropriate for the Fund and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

Corporate governance arrangements (continued)

DRAFT

Our work concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively.

The Fund has procedures in place for the prevention and detection of fraud and corruption.

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Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Our testing of the design and operation of higher level controls designed for pension administration and investments management noted no exceptions.

The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work. KPMG's identification of weaknesses, where applicable, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

As part of our work, we undertook a review of the latest internal control reports issued by the Fund's investment managers. The exceptions reported by the independent auditors of the investment managers were reviewed and we planned our audit approach taking into account the assurance gained through these reports.

Exceptions reported recognised internal control deficiencies had no direct impact on the Pension Fund audit, giving comfort over the evidence provided by the investment managers. Additional testing was performed to corroborate the information received from the investment managers with the custodian reports that were independently received by us.

Prevention and detection of fraud

No material fraud or other irregularities were identified during the year. The arrangements include policies and codes of conduct for staff and board members, supported by a fraud prevention policy and response plan.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The Fund has arrangements including policies and codes of conduct for staff and board members, supported by a whistleblowing policy. Board members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance, material or otherwise to their work at the Fund.

Our testing confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

We consider that the Fund has appropriate arrangements to prevent and detect fraud.

We consider that the Fund has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

Appendices

Mandatory communications

DRAFT

There were two adjustments to the core financial statement and there are no unadjusted audit differences.

Page 325

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were two audit adjustments required to the draft financial statements which impacted on the net assets for the year. A small number of minor numerical and presentational adjustments were required to some of the financial statement notes.	Appendix two
Unadjusted audit differences Audit differences identified that we do not consider material to our audit opinion	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued to the Audit and Risk Committee	We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Partner and audit staff.	Appendix three
Schedule of Fees Fees charged by KPMG for non-audit services	There were non-audit fees related to taxation work for the year.	Appendix three
Draft management representation letter Proposed draft of letter to be issued by audit team to KPMG	There are no changes to the standard representations required for our audit from last year.	-
Materiality The materiality applied to audit testing.	We assessed materiality based on our knowledge and understanding of the Pension Fund's risk profile and financial statements balances. Materiality was determined at £0.580 million; approximately 2% of total investment income, contribution receivable and transfers in, and is broadly consistent with the materiality identified in our audit strategy. We designed our audit procedures to detect errors at a lower level of precision, i.e. £0.435 million. We report identified errors greater than £29,000 to the Pension Fund Committee.	

Adjusted Audit differences

DRAFT

Under auditing standards we are required to bring to the attention of the Fund trustees any misstatements, including omissions or other errors in presentation or disclosure (other than those that are clearly trifling) identified during the course of our normal audit work for which no adjustment has been made in the financial statements. If we have identified any material misstatements which have been corrected by management we should also bring these to your attention in order to assist you in fulfilling your governance responsibilities, which include reviewing the effectiveness of the system of internal control.

Page 326

Area	Summary observations	Audit findings
Investment Assets	Undervaluation of investment assets.	A misstatement undervaluing the investment assets by £0.13m(net) was identified and corrected during the audit. This increased investments assets at 31 March 2015 from £544.3m in the draft financial statements to £544.4m initially stated for 2014-15. The draft financial statements valuation of year end investment assets for the Fund noted below, were incorrectly shown at the mid/offer price rather than the bid price.
Other Current Assets	Other Current Assets were not changed from signed 2013-14 financial statements to 2014-15 draft financial statements.	The 2014-15 draft financial statements were populated with 2013-14 signed financial statements' Other Current Assets. An adjustment was proposed to update this value correctly for the draft financial statements for 2014-15.

Summary of audit differences			
£'000	**Financial Statement Caption**	**Dr**	**Cr**
Adjusted differences			
Investment assets			
Dr Investment Assets	Net Assets	£127k	
Cr Profit and Loss on disposal of Investments/Change in Market Value of Investments	Fund Account		£127k
Other Current Assets			
Dr Profit and Loss on disposal of Investments/Change in Market Value of Investments	Fund Account	£257k	
Cr Other Current Assets	Net Assets		£257k

Auditor independence

DRAFT

Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with the Pension Fund.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit taxation services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Pension Fund and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the board of directors.

Confirmation of audit independence

We confirm that as of 30 September 2015, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partner and audit staff is not impaired.

This letter is intended solely for the information of the audit committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

cutting through complexity

SCOTTISH BORDERS COUNCIL PENSION FUND ANNUAL REPORT AND ACCOUNTS 2014/15

Report by Chief Financial Officer

EXECUTIVE COMMITTEE

29 SEPTEMBER 2015

1 PURPOSE AND SUMMARY

1.1 **This report presents Members with the Scottish Borders Council Pension Fund's audited Annual Accounts for 2014/15.**

1.2 The Council's External Auditors, KPMG, have now completed the audit of the Council's 2014/15 Annual Accounts. KPMG have prepared the Annual Audit Report (see Item 13(a) on Agenda) and have provided an unqualified independent audit opinion.

1.3 The Annual Audit Report summarises KPMG's conclusions, including:

- An unqualified audit opinion
- The Accounts have been prepared in accordance with relevant legislation, Codes of Practice and accounting requirements
- High quality working papers

1.5 The audited Annual Accounts for Scottish Borders Council Pension Fund as contained in Appendix 1 are presented to the Executive Committee for approval prior to signature.

2 RECOMMENDATIONS

2.1 It is recommended that the Executive approve the audited Scottish Borders Council Pension Fund Annual Report and Accounts 2014/15 for signature by the Chair of the Pension Fund Committee and the Chief Financial Officer.

3 BACKGROUND

3.1 The unaudited accounts for 2014/15 were submitted to KPMG, the External Auditors, by the statutory deadline, following presentation of the draft accounts to the Audit Committee at the June meeting. KPMG began their detailed audit work in July and this was completed by the beginning of September.

3.2 As part of the statutory requirements (the 2014 Regulation, the Circular and the Local Government Pension Fund (Scotland) Regulations 2014) the Council is required to advise the public of their right to inspect and object to the accounts and their supporting papers and make the documents available for inspection. This process was undertaken following the new timetable contained in the 2014 Regulations and the inspection period commenced on 1 July 2015.

3.3 The Council must meet the Local Authority Accounts (Scotland) Regulations 2014 (the 2014 Regulations) and Finance Circular 6/2015 (the Circular) requirement to have the audited Annual Accounts approved by the local authority or the committee with responsibility for audit or governance prior to signature on the 30 September 2015. It has been identified that the Council's Scheme of Administration does not provide this authority to the Audit & Risk Committee and the next Council meeting is not until the 7 October 2015. As a result Emergency Powers have been sought to seek approval to amend the scheme of Administration on a temporary basis to enable the Council, Pension Fund, Common Good and Trust Fund 2014/15 accounts to be submitted for approval to the Executive Committee on the 29 September, following consideration by the Audit & Risk Committee (28 September) thereby ensuring compliance with the statutory deadline of the 30 September 2015.

3.4 Following approval, the 2014 Regulations have the following requirements as set out in Part 3 Section 10 (3):

> *Immediately **following the approval of the Annual Accounts** for signature, the statements which form part of those accounts are to be signed and dated as follows—*
>
> *(a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;*
> *(b) the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;*
> *(c) the annual governance statement by the Chief Executive and the Leader of the Council;*
> *(d) the remuneration report by the Chief Executive and the Leader of the Council; and*
> *(e) the balance sheets by the proper officer, to authorise publication of the financial statements.*

The Circular clarifies that for the purpose of the pension funds it is considered more relevant and appropriate that the Convenor of the Pension fund is nominated to sign rather than the Leader of the Council. As a result Councillor Bill White will sign as Chair of the Pension Fund Committee. The proper officer for Scottish Borders Council is the Chief Financial Officer.

3.5 This report presents the audited Annual Report and Accounts of the Scottish Borders Council Pension Fund for the year ending 31 March 2015.

3.6 It is a statutory requirement to publish the audited annual accounts of the Pension Fund, and the 2014 Regulations require this to be done no later than 1st December 2015.

4 EXTERNAL AUDITOR'S ANNUAL REPORT 2014/15

4.1 KPMG has now completed the audit of the Pension Fund, and I am pleased to report that the Pension Fund Annual Report and Accounts 2014/15 has received an unqualified independent audit opinion.

4.2 KPMG's associated Annual Audit Report was presented as Item 6 (a) on the Agenda. As well as being unqualified, the report expresses the following headlines:-

- Annual Report and Accounts were prepared to a high standard
- Accounts have been complied in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
- High quality working papers
- Two audit adjustments were incorporated into the final financial statements.
- Good and clear presentation throughout the Management Commentary

5 IMPLICATIONS

5.1 Financial

There are no additional financial implications for the Council.

5.2 Risk and Mitigations

The External Auditor's Annual Report identifies the potential risks and confirms that they are content that these risks are being managed effectively.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report.

5.4 Acting Sustainably

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

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 a 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**

As stated in paragraph 3.3 an Emergency Powers has been prepared to seek approval to amend the Scheme of Administration on a temporary basis with regard to the approval of the 2014/15 Annual Accounts.

6 CONSULTATION

6.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR and the Clerk to the Council are being consulted and any comments received on the report will be presented to the Committee. Comments received from the Chief Officer Audit and Risk have been incorporated into the report.

6.2 The Audit & Risk Committee considered the audited accounts and external audit report on the 28 September 2015.

Approved by

David Robertson
Chief Financial Officer **Signature ....**

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager 01835 825016

Background Papers:
Previous Minute Reference: Audit & Risk Committee, 30 June 2015

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

Contact us at: Lynn Mirley, Corporate Finance Manager, Scottish Borders Council, Council HQ, Newtown St Boswells, Melrose TD1 0SA, 01835 825016, treasuryteam@scotborders.gov.uk

Scottish Borders Council

Scottish Borders Council Pension Fund

annual report and financial statements

for the year to 31 March 2015

Contents

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 2015. 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 2014/15.

Highlights for the Year

Pension Fund Committee/Pension Board

The Pension Fund Committee has worked hard during the year to support the delivery of 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.

A particularly useful workshop was held to develop the Fund's response to the new requirement to introduce Pension Boards in the governance arrangements. The constitution for the new Pension Board was approved by Scottish Borders Council in April 2015 and the first joint meeting of the Pension Fund Committee and the Pension Board was held on 18 June 2015.

I have been heartened by the positive response from our Trade Unions and Scheme Employers and am pleased to report that we have a full complement of 8 representatives on the Pension Board.

Investment Assets

Over the past few years the market recovery along with strong performance from key fund managers within the Fund, has resulted in the Fund growing in value. This year the Fund passed the half billion level and at the end of March 2015 it had Net Assets of £545m, an increase of £59m on the previous financial year.

The overall performance of the Fund was 11.8% based on a 3 year rolling average basis, outperforming the benchmark and the local authority weighted average return over the period.

The Fund successfully transitioned the fixed income mandate from UBS to M&G and the UBS global equity mandate to Harris Associates. This means that the Fund now is diversified across six investment managers and four main asset classes.

Funding Levels

Barnett Waddingham, the Fund's actuary, worked with us during 2014/15 to undertake the triennial valuation based on the position at 31 March 2014. The outcome of this valuation was the continuation of a stable common employer contribution rate of 18% of pay and a funding level of 101%. This valuation is the first to take into account the new LGPS scheme which came into effect on 1 April 2015.

The Fund's strong investment returns over the past 3 years contributed significantly to the positive valuation position.

Pensions Administration

During the year the Pensions Administration Team have worked hard to implement a new IT system, support the data required to undertake the Triennial Valuation and be ready to go live with the new LGPS scheme on the 1st April 2015.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, officers within the Council, our investment managers, AON Hewitt and Barnett Waddingham for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.

Councillor Bill White

Chairman, Pension Fund Committee
Scottish Borders Council

MANAGEMENT COMMENTARY

Management and Financial Performance

Scottish Borders Council Pension Fund

2014/15 in Numbers

- **£545m Net Assets, an increase of £59m on 2013/14**
- **9,797 Members, an increase of 241 on previous year**

2014/15 Successes

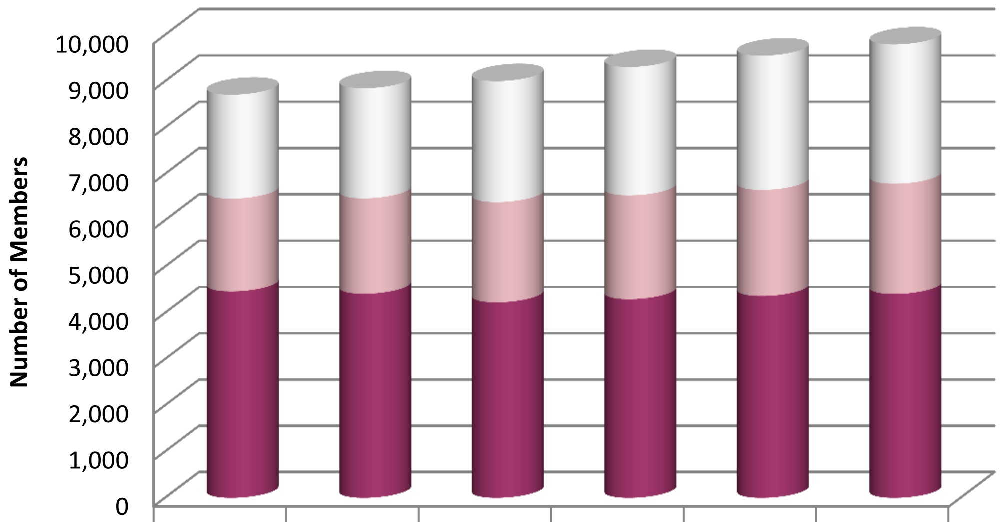
- **Implementation of Pension Board**
- **Good Engagement of Members in the Training Programme**

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 9,797 of which 4,410 are actively contributing and 3,006 are in receipt of pension benefits. The following chart summarises the trends in membership:



	2010	2011	2012	2013	2014	2015
Pensioners/Dependents	2,242	2,376	2,611	2,771	2,898	3,006
Deferred	2,004	2,061	2,164	2,242	2,292	2,381
Contributing	4,466	4,415	4,230	4,298	4,366	4,410

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 2010 the total membership has increased by 1,085 members (a 12% increase overall). During this period the number of pensioners and their dependants has increased by 34%, and the number of active contributing members has decreased by 1%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively and will be included as part of the considerations when undertaking a full investment review.

A full reconciliation of the movement in membership during 2014/15 is included in Note 19 to the Accounts, page 44.

Financial Performance

The Financial Statements for the Fund are set out from page 25.

Key Figures from these are set out below:

	2013/14 £'000	2014/15 £'000
Net (Withdrawals) from Dealings with Members	(782)	**(1,334)**
Net Return on Investments	40,920	**60,364**
Net Increase in the Fund during the Year	40,138	**59,030**
Closing Net Assets of the Scheme	486,095	**545,125**

These highlight two key messages in relation to the Financial Position of the Fund:

- ***Strong Financial Returns on the Fund's Investments resulting in a Growing Asset Base***
- ***A Net Withdrawal Position in relation to Dealing with the Fund's 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.

The changes in the legislation around what pensioners are able to do with their pension benefit entitlements are increasing individual freedom to withdraw from the Fund and trigger significant transfer movements. As this legislation has only just come into force this is an area that will require detailed monitoring to understand the impact and how it will affect the funding and investment strategy for the Fund.

Governance and Decision Making

There were significant changes required to be implemented in the governance arrangements by 1 April 2015. These were as a direct result of the Public Sector Pension Act 2013, as interpreted for the LGPS through regulations passed in 2014 and 2015. The Fund's Governance Policy and Compliance Statement has been updated to reflect these changes and was approved on 18 June 2015 and is available at www.scotborders.gov.uk/pensions.

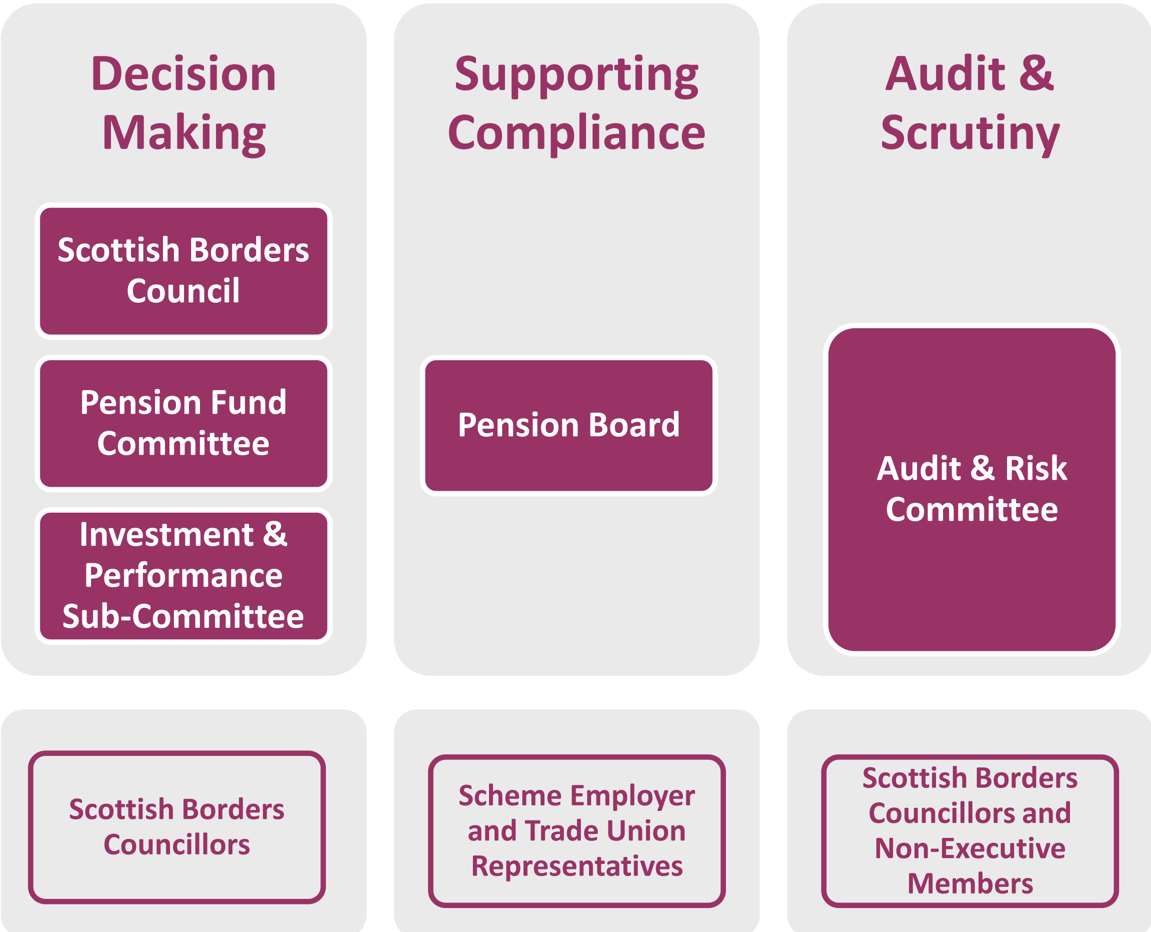
The most significant change was the creation of a Pension Board with a remit to assist the Council (as administering authority) in relation to:

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 new body is made up of four scheme employer representatives and four trade union representatives. The first joint meeting of the Pension Fund Committee and Pension Board was on 18 June 2015.

The changes also amended the membership of the Pension Fund Committee which now only has elected members from the administering authority, Scottish Borders Council.

As of 1 April 2015 the governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2015 can be found on pages 17 and 18.

Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 18 June 2015 to reflect the changes in the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2014/15 training programme was developed. It was delivered to all members of the Pension Fund Committee and covered the following areas:

- Role of the Custodian
- Investments and new Investment Managers
- Governance

The Training Policy sets out a target for all members of the Pension Fund Committee in relation to attendance at Committee meetings and training events. The 2014/15 performance is set out below is for seven the Elected Members who had the voting rights on the Committee:

	Number of Members Attending	
% Attendance	Committee (Target – 2 meetings)	Training (Target – 2 sessions)
100% (4 sessions or more)	4	-
75% (3 sessions)	3	3
50% (2 sessions)	-	3
≤ 25% (1 or no sessions)	-	1

All members met the attendance target for Committees, and six out of the seven members (85%) met the target attendance at training events, demonstrating good engagement. The member who was unable to attend the target level due to additional responsibilities at a national level, has been provided with additional training on an individual level to ensure the skills and knowledge required was maintained.

As a result of all the work in previous years 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 17.

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 as 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 2015/16 – 2017/18 on 18 June 2015 and this presented the action plan associated with supporting the delivery of these aims and objectives. The key actions supporting these objectives are:

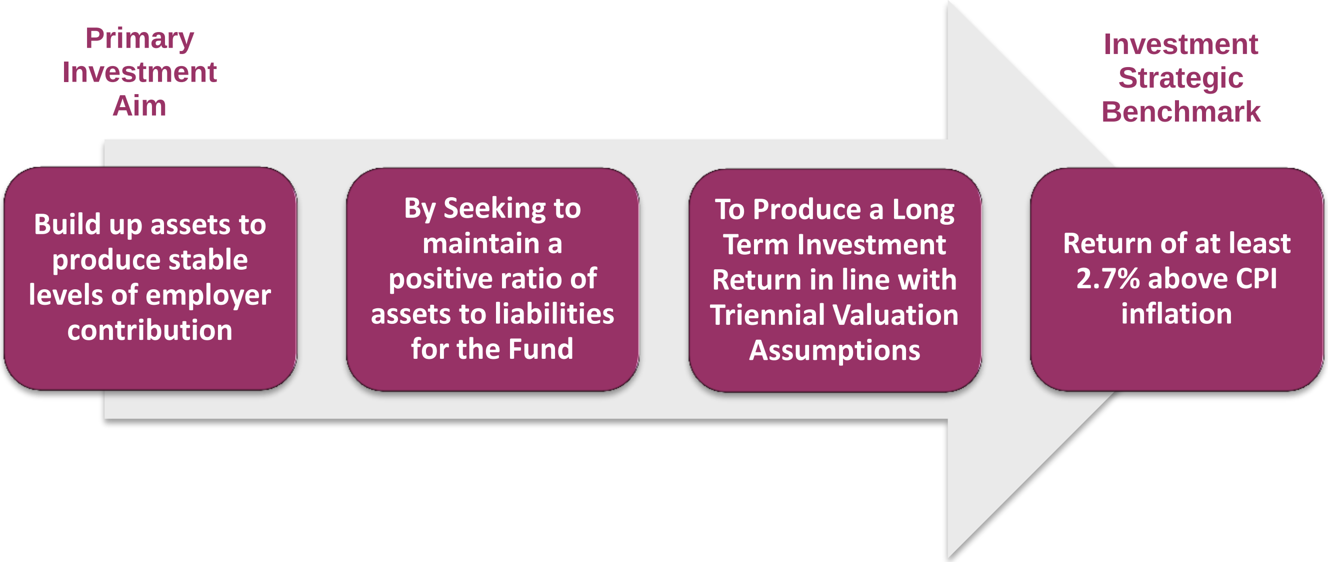
- ***Review Pension Strategies informed by 2014 Triennial Valuation Results***
- ***Develop and Implement an effective Communication Strategy for the Pension Fund***
- ***Implement the new LGPS Scheme***
- ***Review Additional Voluntary Contribution Scheme Provision***
- ***Ensure accuracy of Pension Records***
- ***Continue to develop robust governance and risk management***
- ***Review services provided externally to ensure that these represent best value to the Fund***

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 that it sets out is summarised below:



The following table indicates the 31 March 2015 position in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/14 %	Asset Allocation at 31/3/15 %	Strategic Benchmark %
UK Equity	22.9	22.1	19.0
Global Equity	42.0	43.5	46.0
Bonds	10.9	10.7	13.0
Multi Asset Fund	17.4	17.2	17.0
Property	4.4	5.3	5.0
Cash	2.4	1.2	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 2013/14 and 2014/15. The Fund has taken a deliberate decision to run underweight in the Bonds allocation due to the current market conditions and invested £4m of the surplus cash into Property.

MANAGEMENT COMMENTARY

Review of Investment Performance

2014/15 in Numbers

- **Strong 3 year annualised investment performance of 11.8%, 0.4% above benchmark and 0.8% above the Local UK Authority Average**

- **Transition of Fixed Income Mandate to M&G**
- **Transition of a Global Equity Mandate to Harris Associates**
- **£4m Surplus Cash invested into Property Mandate**

Key Successes 2014/15

Investment Markets

During 2014/15 all markets demonstrated a positive 12 month and rolling 3 year annualised return to 31 March 2015. This was underpinned by factors such as:

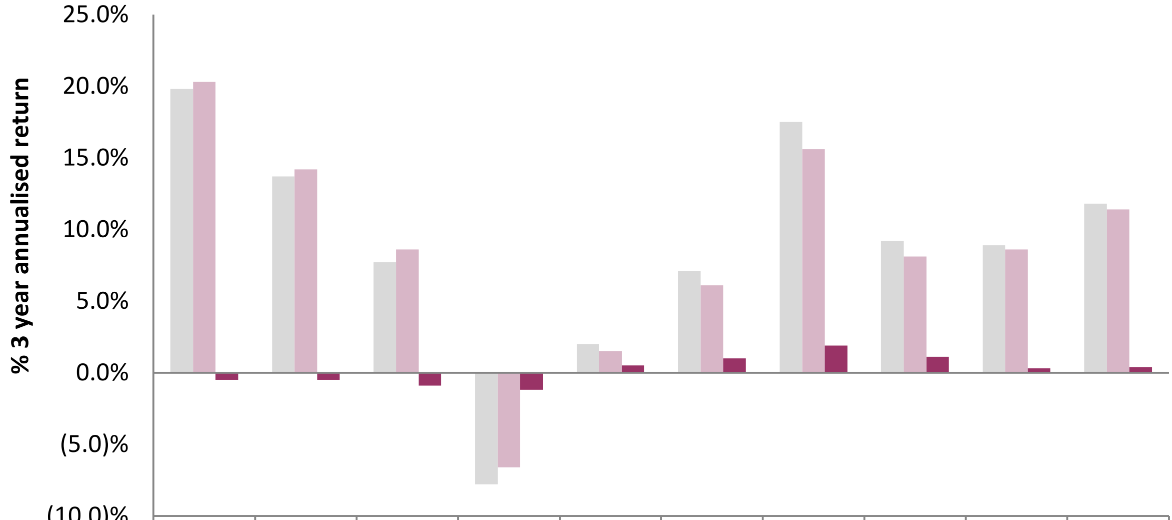
- Economic growth in the UK and US over the past two years has shown steady improvements with an annual GDP growth in the UK of 2.8% for 2014, and 2.4% in the UK.
- The European Central Bank commenced a programme of quantitative easing in January 2015 in an attempt to boost growth and employment through the Eurozone.
- Several central banks around the globe reduced interest rates which were driven by falling oil prices.
- Bond yields (especially on longer dated bonds) have been at very low levels throughout the period supporting a strong return on longer gilts and investment grade corporate bonds.

The Fund's investment performance has mirrored these strong investment returns during 2014/15.

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 in 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



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actual Return	19.8%	13.7%	7.7%	(7.8)%	2.0%	7.1%	17.5%	9.2%	8.9%	11.8%
Benchmark Return	20.3%	14.2%	8.6%	(6.6)%	1.5%	6.1%	15.6%	8.1%	8.6%	11.4%
Relative Return	(0.5)%	(0.5)%	(0.9)%	(1.2)%	0.5%	1.0%	1.9%	1.1%	0.3%	0.4%

Including the impact of the passive currency hedge, the overall fund return over 3 years was 11.8% p.a. versus the benchmark of 11.4% p.a., and the Fund return over 1 year was 12.3% p.a. compared to a benchmark of 11.8% p.a. Excluding the impact of the currency hedge, the fund return over 3 years was 11.9% p.a. versus a benchmark of 11.5% p.a. and the fund return over 1 year was 13.2% p.a. versus a benchmark of 13.2% p.a.

The Fund achieved these favourable returns in 2014/15 despite the fact that it executed two managers' transitions and started the year with a significant amount of internally managed cash. The decisions to transition the Bonds/Fixed Income Mandate away from UBS to M&G, and the Global Equity Mandate from UBS to Harris Associates were completed in November and December 2014. In addition, £4m of surplus cash was invested into the UBS Property Mandate over the year as opportunities arose to invest in the desired investment funds.

Each quarter the Investment Consultants, AON Hewitt, reported on the Fund's quarterly performance by individual investment manager and mandate to the Pension Fund Committee, and these managers presented their performance to the Committee 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 UK Local Authority Weighted Average and the Fund Benchmark.

Return on Investment	1 Year rolling return			3 year rolling return		
	Fund %	Bench[1] %	LA[2] %	Fund %	Bench[1] %	LA[2] %
Total Fund including Currency Hedging	**12.3**	**11.8**	**13.2**	**11.8**	**11.4**	**11.0**
Total Fund excluding Currency Hedging	**13.2**	**13.4**		**11.9**	**11.5**	
Global Equities including UK	17.5	19.1	18.3	**14.6**	15.3	14.3
UK Equities	6.9	6.6	6.3	**11.5**	10.6	11.7
Total Bonds	16.7	17.1	11.4	**9.5**	8.9	6.9
UK Government Bonds	26.2	22.7	14.5	**10.0**	8.7	6.0
UK Corporate Bonds	12.4	13.1	13.0	**8.8**	8.7	9.1
Property	17.6	10.4	15.8	**16.6**	9.4	9.7
Alternatives	10.8	4.6	12.5	**-**	-	-
Cash	2.4	0.3	1.8	**1.3**	0.4	2.0

Key:
[1] ***Bench**: Benchmark Return which reflects the overall performance of the individual markets available to the manager within the mandate given to them.*
[2] ***LA**: Local Authority Weighted Average Return based on WM Company's League Tables for period to 31 March 2014*

The performance of the Fund in all of the Asset classes with the exception of Global Equities exceeded the 3 year benchmark return. The Global Equities 1 year return was negatively impacted upon by UBS prior to the divestment from them in the first half of the year, Morgan Stanley had only one quarter of 2014/15 where they produced a favourable contribution to the overall performance of the Fund and this was offset by strong performance by Baillie Gifford's Global Equity mandate over the year.

Top 20 Direct Equity Holdings at 31 March 2015

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential	5.7	General Motors	2.1
Royal Caribbean Cruises	4.6	Nestle	2.1
Naspers	4.5	Markel	2.1
Anthem	2.7	Google	2.1
Taiwan Semicon.SPN.ADR	2.7	Wells Fargo & Co	2.1
Ryanair	2.6	Intel Corp	2.1
Amazon	2.5	AIA Group	2.1
Credit Suisse	2.5	Julius Baer Group Ltd	2.1
TD Ameritrade	2.4	CNH Industrial	2.0
BNP Paribas	2.2	Allianz	2.0

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.

	Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	**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 20 to the Statement of Accounts on page 44, 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 salaries 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 2015

Note 21 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 £179m. 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 discount rate 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 its overall long term funding health.

MANAGEMENT COMMENTARY

Pensions Administration Update

2014/15 in Numbers

- **16 Scheme Employers**
- **£19.1m of Pension and Other Benefits paid during year**
- **£18.2m of Contributions Received from 4,410 Active Members and their Employers**
- **6,159 Benefits Statements issued**

Key Successes 2014/15

- **Implementation of new Pensions Administration System**
- **Held First Scheme Employer Liaison Meeting**
- **Ready to launch new LGPS on 1 April 2015**

Scheme Employer Liaison

The first Scheme Employer Liaison meeting was held during 2014/15 and was agreed by all those in attendance that this was a beneficial exercise and should be repeated on an annual basis. The intention is that this annual meeting will be held towards the end of the financial year where future legislative changes and requirements for the year end processing can be discussed.

In addition to the formal Liaison Meeting it is also worth noting that a number of briefings were held with employer groups during the year, bringing to their attention the changes that were implemented from 1 April 2015 with the new LGPS and what that would mean for them as employers and/or their scheme members

The good relationship with the main Scheme Employers also has resulted in the Fund securing the involvement of 4 employers as representatives in the new Pension Board, with a further body acting as a substitute.

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 16 employer organisations within the Fund including the Council itself and membership by employer are analysed over the page.

Membership Details as at 31 March 2015	Number of Contributors	Pensioners	Deferred Pensioners	Total
Scheduled Bodies:				
Scottish Borders Council	4,056	2,835	2,195	9,086
Borders College	152	56	79	287
Visit Scotland (Scottish Borders)	1	7	9	17
	4,209	**2,898**	**2,283**	**9,390**
Active Admitted Bodies:				
Scottish Borders Housing Association	128	69	56	253
Borders Sport and Leisure Trust	58	10	23	91
Jedburgh Leisure Facilities Trust	2	-	2	4
L&B Community Justice Authority	5	1	3	9
Amey Community Limited	8	2	4	14
	201	**82**	**88**	**371**
Admitted Bodies with No Active Contributing Members:				
Gala Youth Project	-	1	1	2
Scottish Borders Careers	-	1	3	4
Others	-	24	6	30
	-	**26**	**10**	**36**
Total	**4,410**	**3,006**	**2,381**	**9,797**

Member Engagement

This has been identified as an area for development within the Pension Fund Business Plan 2015/16 – 2017/18. 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 June 2012. 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 2014/15 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 18 June 2015 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 2014/15, however they have been detrimentally affected during the year, when compared to the previous year, due to the implementation of the new Pensions Administration System, the data gathering and analysis for the Triennial Valuation and preparation for implementation of the new LGPS Pension Scheme, all of which were achieved with no additional resource in the Pensions Administration Team.

Service Standard - Estimates

Standard	Volume of Requests	Target Response	2014/15 % on Target
Estimates – Transfer In	47	10 days	8.5%
Estimates – Transfer Out	73	10 days	24.7%
Estimate – All Other	884	10 days	86.9%
Total Estimates	**1,004**		**78.7%**

Service Standard - Query Response Turnaround

	2013/14		2014/15 *	
Standard	**Volume of Queries**	**% on Target**	**Volume of Queries**	**% on Target**
Query responses – within 10 working days	554	100%	480	100%
Benefit Statement queries – within 20 working days	101	100%	20	100%
Total	**655**	**100%**	**500**	**100%**

**** Note:***
The way in which information has been recorded for general queries and advice was enhanced during 2013/14, however, it has been identified that not all enquiries received have been recorded in 2014/15. Action has been taken to ensure that this is rectified in 2015/16.

Service Standard - Other

Area	Measure	Completed
Employer Liaison Meetings	2 per annum	1 meeting
Benefit Statements	by end of October	1 November 2014

Employer Performance Measures

Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	547	90%	100%
Changes notified – within 20 working days	466	90%	100%
Retirement info – at least 20 working days before	167	90%	100%
Early leaver notification – within 20 working days	407	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 (19th of Month)	Late	*% On Time*
Scottish Borders Council	12	-	*100%*
Visit Scotland	12	-	*100%*
Borders College	12	-	*100%*
Scottish Borders Housing Association	7	5	*58%*
Jedburgh Leisure Facilities Trust	12	-	*100%*
Borders Sport and Leisure Trust	12	-	*100%*
AMEY Community Limited	11	1	*92%*

There has been a small increase in the number of payments being received late when compared to 2013/14, where there were 6 late payments compared with 4 in the previous year. Engagement with Scottish Borders Housing Association resulted in an improvement in their performance. The payments dates continue to be monitored on a monthly basis.

Councillor Bill White
Chairman
Pension Fund Committee

Tracey Logan
Chief Executive
Scottish Borders Council

David Robertson
Chief Financial Officer
Scottish Borders Council

29 September 2015

GOVERNANCE

Annual Governance Statement 2014/15

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 pension's functions 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 Pension Fund appoints professional advisers and external service providers.

d) 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.

e) 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.

f) 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 advice 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.

g) 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.

h) The Chief Officer Audit & Risk (Head of Internal Audit (HIA)) reports administratively to the Service Director Strategy & Policy, reports functionally to the Audit & Risk Committee, meets regularly with the Chief Financial Officer, and has direct access to the Corporate Management Team. The HIA reports in her own name and retains final edit rights over all internal audit reports and 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 of the Council's arrangements.

i) The Pension Fund responds to findings and recommendations of external audit, scrutiny and inspection bodies and its own independent internal audit section. The Audit & 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 & 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 2014/15, page 19.

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 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 on page 24.

The conclusion from the review activity outlined above is that in 2014/15 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 however identified some areas where further improvements in internal controls and governance arrangements can be made:

a) The ongoing implementation of recommendations made by Internal Audit and External Audit, with particular emphasis on prompt implementation of high priority recommendations.

b) Development of a communications plan to improve awareness and understanding of stakeholders and encourage maximum membership of the Fund.

c) Development of a business plan to improve planning and monitoring of the performance of the Fund.

d) Implementation of new governance arrangements in response to reforms including committee structure, review of pensions' administration strategy, and training policy.

e) Work to fully evaluate the implications of new national policy on freedom of choice of pension sums.

Certification

It is my 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 on page19.

Councillor Bill White
Chairman
Pension Fund Committee
29 September 2015

Tracey Logan
Chief Executive
Scottish Borders Council

GOVERNANCE

Governance Compliance Statement 2014/15

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	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). The Committee comprises of 7 elected members. The Council's Scheme of Administration sets out the Committee's remit.
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	Introduction of the **Pensions Board** (the Board) has formalised the involvement of the employers and trade unions representing the membership. The Fund's Board has 8 members, 4 employer representatives and 4 trade union representatives. The Board has a constitution developed in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement. The Board will meet jointly with the Committee and the Board Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved. The **Investment and Performance Sub-Committee** (the Sub-Committee) has been established under the Committee and its remit is 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.

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 will 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 18 June 2015). 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 on 18 June 2015.

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 meeting of the Committee and Board will be at least 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	New Investment Sub-Committee established will meet at least 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 2014 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 Assessment					
Risk Category	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	4	5	1	-	7	3
Employer	1	4	-	1	4	-
Resource & Skill	-	7	-	-	3	4
Liquidity	3	5	-	-	5	3
Administrative	4	5	1	-	5	5
Regulatory & Compliance	1	3	1	1	-	4
Reputation	1	4	-	-	2	3
Total Number of Risks	**14**	**33**	**3**	**2**	**26**	**22**

The two risks that remain at red assessment i.e. high risk as at 31 March 2015 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 2015, and of its income and expenditure for the year ended 31 March 2015.

Councillor Bill White
Chairman
Pension Fund Committee

David Robertson
Chief Financial Officer
Scottish Borders Council

29 September 2015

STATEMENT OF ACCOUNTS 2014/15
FUND ACCOUNT

2013/14 Restated £'000		2014/15 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
17,184	Contributions Receivable	**18,217**	**6,9**
1,096	Transfers In	**703**	**7**
18,280		**18,920**	
(17,230)	Benefits Payable	**(19,106)**	**8**
(1,466)	Payments To And On Account Of Leavers	**(786)**	**10**
(366)	Administration Expenses	**(362)**	
(19,062)		**(20,254)**	
(782)	**Net Additions/(Withdrawals) from Dealings with Members**	**(1,334)**	
	Return on Investments:		
5,264	Investment Income	**4,605**	**11**
37,796	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	**58,422**	**12**
(162)	Taxes on Income	**(167)**	
(1,978)	Investment Management Expenses	**(2,496)**	**13**
40,920	**Net Return on Investments**	**60,364**	
40,138	**Net Increase/(Decrease) in the Fund during the Year**	**59,030**	
445,957	Opening Net Assets of the Scheme	**486,095**	
486,095	**Closing Net Assets of the Scheme**	**545,125**	

NET ASSETS STATEMENT as at 31 March 2015

2014 £'000		2015 £'000	Notes
	Investment Assets		
15,372	Fixed Interest - Public Sector	**-**	
186,552	Equities	**216,527**	
	Managed Funds:		
21,348	Property	**28,652**	
64,943	Global Equities	**76,217**	**15**
61,246	UK Equities- Passive	**65,308**	
37,270	Bonds	**18,374**	
-	Diversified Fixed Income	**39,967**	
83,987	Alternatives	**93,815**	
1,368	Open Ended Investment Contracts	**1,665**	
(126)	Derivatives – Forward Foreign Exchange	**(2,515)**	
11,650	Cash Deposits	**6,450**	
483,610	**Total Investment Assets**	**544,460**	
1,000	Other Investment Balances	**748**	
	Current Assets & Liabilities		
2,279	Cash Balances	**1,138**	
129	Contributions due from Employers	**91**	
313	Other Current Assets	**56**	
(1,236)	Other Current Liabilities	**(1,368)**	
2,485		**665**	
486,095	**Net Assets**	**545,125**	

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 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
Chief Financial Officer
29 September 2015

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 2014/15 were based on the valuation undertaken as at the 31 March 2011 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 2014/15 ranged from 15.5% to 18.5%. *From 1 April 2015 these employer contributions will be based on the outcome of the valuation undertaken as at the 31 March 2014*.

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 tie. 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 2015. *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 2015
Pension	Each year worked is worth 1/80th x final pensionable salary	Each year worked is worth 1/60th 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 lump sum 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 2014/15 financial year and its position as at the 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* (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 2014/15 - 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 37 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 bass 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 2015 was £0.754m (2013/14 £0.745m). During the year contributions in totalled £0.08m, while payments out of the AVC fund totalled £0.22m. 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 2015 was £20.9m.

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 2015 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.	The effects on the net pension liability of changes in individual assumptions can be measured. - 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 *Source – Triennial Valuation 2014*
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 £93.82m. There is a risk that this investment may be under- or overstated in the accounts.

6 CONTRIBUTIONS RECEIVABLE

2013/14				2014/15		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
12,749	4,318	17,067	Normal	13,039	4,400	17,439
80	-	80	Special/Pension Fund Strain	743	-	743
-	37	37	Additional Voluntary	-	35	35
12,829	**4,355**	**17,184**	**Total**	**13,782**	**4,435**	**18,217**

7 TRANSFERS IN

There were no group transfers in to the scheme during 2014/15 or 2013/14 and the total of £0.703m (2013/14: £1.096m) represents the total of transfer values in respect of individual members joining the scheme.

8 BENEFITS PAYABLE

2013/14 £'000		2014/15 £'000
13,781	Pension Payments	14,657
3,449	Lump Sums/Death Benefits	4,449
17,230		**19,106**

9 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

2013/14			2014/15	
Benefits Payable	Contributions Receivable		Benefits Payable	Contributions Receivable
£'000	£'000		£'000	£'000
16,452	15,569	Scottish Borders Council	18,255	16,511
221	518	Scheduled Bodies	245	585
557	1,097	Admitted Bodies	606	1,121
17,230	**17,184**	**Total**	**19,106**	**18,217**

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2013/14 £'000		2014/15 £'000
40	Contributions Returned	73
1,426	Individual Transfers to Other schemes	713
1,466		**786**

11 INVESTMENT INCOME

2013/14 £'000		2014/15 £'000
(527)	Income from Fixed Interest Securities	(103)
(4,151)	Dividends from equities	(3,767)
(555)	Income from Pooled Investment Vehicles	(676)
(31)	Interest on Cash Deposits	(59)
(5,264)		**(4,605)**

12 PROFITS AND LOSSES ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

2013/14 Restated £'000		2014/15 £'000
(37,249)	Realised	(21,150)
(547)	Unrealised	(37,272)
(37,796)		**(58,422)**

2013/14 Restated as a result of changing requirements around Investment Management Fee disclosures.

13 INVESTMENT MANAGEMENT EXPENSES

2013/14 Restated £'000		2014/15 £'000
760	External Management Fees - Invoiced	919
1,088	External Management Fees - Deducted from Capital	1,246
23	Custody Fees	36
93	Investment Consultancy Fees	135
14	Performance Measurement Fees	14
-	Oversight And Governance costs	146
1,978	**Total**	**2,496**

2013/14 Restated as a result of changing requirements around Investment Management Fee disclosures.

14 AUDITOR'S REMUNERATION

In 2014/15 the agreed audit fee for the year was £23,000. There were no other fees incurred during 2014/15 in respect of services provided by KPMG LLP, the Pension Fund's auditor.

15 ANALYSIS OF NET INVESTMENT ASSETS

Market Value at 31 March 2014				Market Value at 31 March 2015		
UK	Overseas	Total		UK	Overseas	Total
£'000	£'000	£'000		£'000	£'000	£'000
			Investment Assets			
15,372	-	**15,372**	Fixed Interest - Public Sector	-	-	**-**
48,187	138,365	**186,552**	Equities	53,569	162,958	**216,527**
			Managed Funds:			
21,348	-	**21,348**	Property	28,652	-	**28,652**
-	64,943	**64,943**	Global Equities	-	76,217	**76,217**
61,246	-	**61,246**	Passive UK Equities	65,308	-	**65,308**
37,270	-	**37,270**	Bonds	18,374	-	**18,374**
-	-	**-**	Diversified Fixed Income	-	39,967	**39,967**
-	83,987	**83,987**	Alternatives	-	93,815	**93,815**
1,368	-	**1,368**	Other Open Ended Investment contracts	1,665	-	**1,665**
10,582	1,068	**11,650**	Cash Deposits	5,056	1,394	**6,450**
195,373	**288,363**	**483,736**	**Total Investment Assets**	**172,624**	**374,351**	**546,975**
			Investment Liabilities			
(126)	-	**(126)**	Derivative - Passive Currency Hedge	(2,515)	-	**(2,515)**
195,247	**288,363**	**483,610**	**Net Investment Assets**	**170,109**	**374,351**	**544,460**

As at 31 March 2015 assets valued at £446.78m were quoted on the Stock Exchange (31 March 2014: £388.10m). The investments in the alternatives portfolio, managed by LGT Capital Partners (£93.82m at 31 March 2015), are not quoted on a stock exchange.

During 2014/15, sales of investments totalled £91.04m and purchases totalled £148.77m. These levels were significant due to the transition activities during 2014/15 to new investment managers. Transaction costs are included in the cost of purchases and sales proceeds.

The Fund has in place a passive currency hedging programme, using forward foreign exchange contracts, which hedges 50% of exposure on specific overseas currencies on its overseas equity investments. All contracts are traded on an over the counter basis. The forward currency contracts outstanding at 31 March 2015 were hedging a foreign currency exposure value of £90.48m and had a market value of a loss of £2.52m. These contracts had a settlement date of 11 June 2015.

Alternative asset portfolio at 31 March 2015

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £93.82m at 31 March 2015, is allocated to the following asset classes at 31 March 2015: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities and Private Equity.

*(**GTAA** – Global Tactical Asset Allocation)*

Investment Movement Reconciliation

	Opening Market Value £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Other Movements £'000	Closing Market Value £'000
Investment Assets					
Fixed Interest - Public Sector	**15,372**	-	(14,171)	(1,201)	**-**
Equities	**186,552**	98,881	(79,711)	10,805	**216,527**
Managed Funds:					
Property	**21,348**	9,080	(3,004)	1,228	**28,652**
Global Equities	**64,943**	-	-	11,274	**76,217**
Passive UK Equities	**61,246**	-	-	4,062	**65,308**
Bonds	**37,270**	517	(34,158)	14,745	**18,374**
Diversified Fixed Income	**-**	40,000	-	(33)	**39,967**
Alternatives	**83,987**	-	-	9,828	**93,815**
Other Open Ended Investment Contracts	**1,368**	295	-	2	**1,665**
Derivative Contracts:					
Passive Currency Hedge	**(126)**	2,084	-	(4,473)	**(2,515)**
Net Investments exc. Cash Deposits	**471,960**	**150,857**	**(131,044)**	**46,237**	**538,010**

Significant Transactions during the year:

- £53.67m was invested in the Harris Associates global equities mandate funded by the divestment of the of the global equities mandate with UBS.
- The Government Gilts and Bonds mandates with UBS were sold and invested into three new managed funds with M&G of which £8.35m was invested in the Corporate Bond Fund, £8.40m into the Fixed Interest Fund and £40.00m into the Alpha Opportunities (Diversified Fixed Income).
- £4m of the internally managed cash in the Fund was invested into the Property mandate with UBS.

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 2015. Each of the investments comprises units in a managed fund.

Value as at 31 March 2015	£'000
M&G Alpha Opportunities Fund	39,967
Morgan Stanley Global Brands Fund	76,217
LGT Crown SBC Segregated Portfolio	93,815
UBS UK Passive Equities	65,308

Investment Analysed by Fund Manager

Investment Management was undertaken on behalf of the Fund during the financial year by four firms of investment managers: UBS Global Asset Management, Baillie Gifford & Co, Morgan Stanley, Harris Associates and M&G and LGT Capital Partners. The Fund's passive currency hedging programme was provided by State Street Global Advisors. As at 31 March 2015 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-14				31-Mar-15	
£'000	%			£'000	%
61,247	*12.67*	UBS	UK Equities - Passive	65,308	*12.00*
32,065	*6.63*	Baillie Gifford	UK Equities	40,783	*7.49*
109,258	*22.59*	Baillie Gifford	Global Equities	123,788	*22.74*
-	-	Harris	Global Equities	57,214	*10.51*
49,283	*10.19*	UBS	Global Equities	-	*0.00*
64,943	*13.43*	Morgan Stanley	Managed Fund - Global Equities	76,216	*14.00*
52,735	*10.90*	UBS	Bonds	-	-
-	-	M&G	Managed Fund - Diversified Income	39,967	*7.34*
-	-	M&G	Managed Fund - Bonds	18,374	*3.37*
21,431	*4.43*	UBS	Property	29,428	*5.40*
83,987	*17.37*	LGT	Managed Fund - Alternatives	93,815	*17.23*
(126)	*(0.03)*	State Street	Derivatives - Passive Currency Hedge	(2,515)	*(0.46)*
8,787	*1.82*	Internal	Internally Managed Cash & Investments	2,081	*0.38*
483,610	***100.00***			**544,459**	***100.00***

The benchmarks and performance targets for each manager as at the 31 March 2015 are contained in Annex 1, Section 4.3, page 51 for information.

Fund Performance

The total Fund return for the year was 12.3% including the currency hedging. The hedging arrangements had a negative impact, decreasing the return by 1.8%. Excluding the currency hedging, the return on the Fund was 13.2%, with a relative return under benchmark of 0.2%.

Over three years the Fund has generated an annualised return of 11.8% per annum, including the currency hedging, with a relative return over benchmark of 0.4% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

16 STOCK LENDING

As at 31 March 2015 no stock had been released to a third party under a stock lending arrangement.

17 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	10.49
Global Pooled Equities	10.04
UK Bonds	7.15
Cash	0.01
Property	2.43
Alternatives	4.70

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 15 £'000	*+/- % Change**	Value on Increase £'000	Value on Decrease £'000
UK Equities	106,091	*10.49%*	117,220	94,962
Global Equities	257,219	*10.04%*	283,044	231,394
Total Bonds	58,341	*7.15%*	62,512	54,170
Cash	2,081	*0.01%*	2,081	2,081
Property	29,428	*2.43%*	30,143	28,713
Alternatives	93,815	*4.70%*	98,224	89,406
Total Assets Exc. Currency Hedge	**546,975**	***7.02%***	**585,224**	**500,726**

**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 2014 and 31 March 2015 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 2014 £'000	At 31 March 2015 £'000
Cash and Cash Equivalents	13,929	7,588
Fixed Interest Securities	52,642	58,341
	66,571	**65,929**

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:

		Effect on Asset Values	
Asset Type	**Value as at 31 Mar 15 £'000**	**Favourable Rate Move + 100 BPS £'000**	**Unfavourable Rate Move -100 BPS £'000**
Cash and Cash Equivalents	7,588	76	(76)
Fixed Interest Securities	58,341	583	(583)
	65,929	**659**	**(659)**

(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 2015:

Currency exposure by asset type	As 31 March 2014 £'000	As 31 March 2015 £'000
Overseas Equities	203,309	239,175
Diversified Bonds	-	39,967
Alternatives	83,987	93,815
Cash - Foreign Currency	1,068	1,394
Total	**288,364**	**374,351**

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with WM, 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 15 £'000	*+/- % Change*	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	1,114	*9.80%*	1,223	1,005
Brazilian Real	523	*12.69%*	589	457
Canadian Dollar	1,395	*6.04%*	1,479	1,311
Danish Krone	1,117	*6.26%*	1,187	1,047
EURO *	20,815	*3.15%*	21,471	20,159
Hong Kong Dollar	3,543	*7.98%*	3,826	3,260
Japanese Yen *	13,876	*5.77%*	14,677	13,075
Norwegian Krone	1,289	*8.79%*	1,402	1,176
South African Rand	4,461	*11.31%*	4,966	3,956
South Korean Won	2,205	*6.56%*	2,350	2,060
Swedish Krona	3,742	*7.03%*	4,005	3,479
Swiss Franc	16,463	*7.42%*	17,685	15,241
US Dollar *	90,485	*4.03%*	94,132	86,838
**Total Currency ** **	**161,028**		**168,992**	**153,064**

** denotes 50% GBP hedge*
*** 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 2015, including current account cash, was £3.14m (31 March 2014: £10.98m). This was held with the following institutions:

	Rating	Balance at 31 March 2014 £'000	Balance at 31 March 2015 £'000
Money Market Accounts			
Ignis	AAA	2,175	500
Scottish Widows	AAA	2,175	500
Blackrock	AAA	2,175	500
Prime Rate	AAA	2,175	500
Bank Current Accounts			
Bank of Scotland	A	2,279	1,138
Total		**10,979**	**3,138**

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 2015, 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.

18 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £6.603m (2014: £6.081m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.022m (2014: £0.022m). The Council charged the Pension Fund £0.321m 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	2014 £'000	2015 £'000
Due from Scottish Borders Council	31	
Due to Scottish Borders Council		(136)

19 MEMBERSHIP RECONCILIATION 2014/15

	Membership Reconciliation – Number of Members			
	Contributing Members	Pensioners	Deferred Pensioners	Total
Number at 31 March 2014	**4,366**	**2,898**	**2,292**	**9,556**
Adjustments (late notifications etc.)	(19)	8	-	(11)
New Members	547	-	184	731
Transfers to Other Schemes	(99)	-	(25)	(124)
Refunds of Contributions	(99)	-	-	(99)
Retirement of Contributing Members	(114)	114	-	-
Transfer to Deferred Pensioners	(184)	-	-	(184)
Re-employed Deferred Pensioners	15	-	(15)	-
Retirement of Deferred Pensioners	-	53	(53)	-
Dependants' Pensions	-	35	-	35
Deaths	(3)	(101)	(2)	(106)
Commutation (trivial pensions)	-	(1)	-	(1)
Ill Health Grant	-	-	-	-
End of Entitlement	-	-	-	-
Number at 31 March 2015	**4,410**	**3,006**	**2,381**	**9,797**

20 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 [18 June 2015] 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 £2.8m. 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	
	2014/15	2015/16 to 2017/18
Scottish Borders Council Common Pool	18.0%	18.0%
Leisure Trusts Common Pool *	18.0%	15.5%
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% until the outcome of the 2014 Actuarial Valuation.

21 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 2013 £m	31 March 2014 £m	31 March 2015 £m
Present value of the defined benefit obligations	(616.3)	(713.9)	**(716.6)**
Fair Value of Fund Assets* (bid value)	448.7	475.9	**537.4**
Net Asset/(Liability)	(167.6)	(238.0)	**(179.2)**

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 2013		At 31 March 2014		At 31 March 2015	
	% p.a.	% p.a.	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Discount Rate	4.5	1.1	4.5	0.8	**3.3**	**0.1**
Retail Price Inflation (RPI)	3.4	-	3.7	-	**3.2**	**-**
Pay Increases – Long Term	4.8	1.4	5.1	1.4	**4.2**	**1.0**
Pension Increases	2.6	(0.8)	2.9	(0.8)	**2.4**	**(0.8)**

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.

22 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.

23 POST BALANCE SHEET EVENTS

There were no adjusting post balance sheet events.

INDEPENDENT AUDITORS REPORT

Independent auditor's report to the members of Scottish Borders Council as administering body for Scottish Borders Council Pension Fund and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Scottish Borders Council Pension Fund ("the Fund") for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements of the Funds ("the financial statements") comprise the fund account, the net assets statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Financial Officer of Scottish Borders Council and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer of Scottish Borders Council is responsible for the preparation of 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) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer of Scottish Borders Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the fund during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Independent auditor's report to the members of Scottish Borders Council as administering body for Scottish Borders Council Pension Fund and the Accounts Commission for Scotland.
(continued)

Opinion on other prescribed matter

In our opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Hugh Harvie,
for and on behalf of KPMG LLP, Statutory Auditor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

ANNEX 1

STATEMENT OF INVESTMENT PRINCIPLES

The key aspects of the Statement of Investment Principles (SIP) for the Scottish Borders Council Pension Fund are set out below. The full SIP was approved by the Pension Fund Committee on [18 June 2015] and a copy of this document can be found at: www.scotborders.gov.uk/pensions

1. The Fund's Objectives (Section 3, page 4 of SIP)

Primary Aim

1.1 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

1.2 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.

1.3 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.

2. Investment Policy (Section 4, page 6 of SIP)

Investment Strategy

2.1 The Investment Strategy's primary aim is to deliver the funding objective in 1.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.

2.2 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.

2.3 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.

2.4 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.

3. Types of Investment (Section 5, page 9 of SIP)

3.1 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
- UK Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions

3.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian

4. Investment Management Arrangements (Section 4, page 6 of SIP)

4.1 The agreed Strategic Asset Allocation for the Fund is currently as follows (Appendix 3, page 13 of SIP):

Asset Class	Manager	Strategic Benchmark %
UK Equity	UBS	*12.6%*
	Baillie Gifford	*6.4%*
	Sub Total	**19.0%**
Global Equity	Harris Associates	*9.9%*
	Baillie Gifford	*21.7%*
	Morgan Stanley	*14.4%*
	Sub Total	**46.0%**
Total Equity		**65.0%**
Bonds		
Alpha Opportunities	M&G	*10.5%*
Govt. Fixed Interests Bonds	M&G	*2.25%*
Corporate Fixed Interest Bonds	M&G	*2.25%*
	Total	**15.0%**
Alternatives		
Multi-Asset Alternatives Fund	LGT Partners	15.0%
Property	UBS	5.0%
	Total	**20.0%**
Cash		0.0%
Total		**100.0%**

4.2 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.

4.3 The current investment management arrangements are set out below (Appendix 4, page 14 of SIP)

Asset Class	Manager	Performance Objective (all net of fees) relative to Benchmark Return	Benchmark Indices Used
UK Equity	UBS	+0.0%	FTSE All-Share Index
	Baillie Gifford	+1.0%	FTSE All-Share Index
Global Equity	Harris Associates	+2.5%	MSCI All Country World Index
	Baillie Gifford	+2.5%	MSCI AC World Index
	Morgan Stanley	Not Defined	MSCI World Net Index
Bonds			
Alpha Opportunities	M&G	+3.5% - 5%%	1 Month LIBOR
Govt Fixed Interest Bonds	M&G	+0.75%	FTSE Actuaries UK Conventional Gilts All Stock Index
Corporate Fixed Interest Bonds	M&G	+0.8%	iBoxx Sterling Non-Gilts Index
Multi-Asset Alternatives Fund	LGT Partners	+4.0%	LIBOR
Property	UBS	+0.75%	IPD UK PPFI All Balanced Funds Index

5. Risk Measurement and Management (Section 4, page 6 of SIP)

5.1 ***Asset Allocation (Section 4.19 of SIP)***

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.

5.2 ***Investment Managers (Section 4.20 of SIP)***

To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark.

The investment 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.

5.3 ***Proper Advice (Section 4.21 of SIP)***

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:	AON Hewitt Limited
Actuaries:	Barnett Waddingham

5.4 ***Concentration Risk and Diversification (Section 4.22 of SIP)***

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.

Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund. 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.

5.5 ***Transition Management Arrangements (Section 4.23 of SIP)***

The use of a specialist transition manager, currently State Street Global Markets, 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.

5.6 ***Currency Risk (Section 4.24 of SIP)***

A Passive Currency Hedging mandate to hedge 50% of the currency exposure is in place within the overseas equity portfolios. The key purpose of this is to reduce the short term volatility in the Fund's asset valuations which results from currency movements.

5.7 ***Safe Keeping of Assets (Section 4.25 of SIP)***

The services of a global custodian, currently J.P. Morgan, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.

5.8 ***Cashflow Risk and Realisation of Investments/Liquidity (Section 4.26 of SIP)***

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.

6. Environmental, Social and Corporate Governance Issues (Section 6, page 9 of SIP)

6.1 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.

6.2 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.

6.3 The Committee recognises its responsibility to exercise voting rights to ensure transparency and accountability in corporate governance.

6.4 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 its voting and other rights attaching to Fund investments.

6.5 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).

6.6 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.

6.7 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 by AON Hewitt.

7. Compliance with the Myners principles (Section 8, page 10 of SIP)

7.1 The statement of compliance with the six principles is set out in Appendix 5, page 15 of the SIP. It demonstrates that the Fund is in full compliance with all the six principles of:

- i Effective Decision Making
- ii Clear Objectives
- iii Risk and Liabilities
- iv Performance Assessment
- v Responsible Ownership
- vi Transparency and Reporting

ANNEX 2

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 2015. 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
Investment Custodians:	JP Morgan
Investment Managers:	Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G 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

Lynn Mirley	Telephone 01835 – 825016
Corporate Finance Manager	E-mail lmirley@scotborders.gov.uk

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

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Scottish Borders COUNCIL

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