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AUDIT AND RISK COMMITTEE TUESDAY, 28 JUNE, 2016

A MEETING of the AUDIT AND RISK COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on TUESDAY, 28 JUNE 2016 at 10.15 am

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

J. J. WILKINSON,
Clerk to the Council,

22 June 2016

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declaration of Interest.	
4.	Minute. (Pages 1 - 6) Minute of meeting of the Audit and Risk Committee held on 9 May 2016 to be approved and signed by the Chairman (copy attached).	5 mins
5.	Risk Management in Services. Presentation by Service Director Children and Young People on the strategic risks facing the service and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within services (verbal presentation).	15 mins
6.	Risk Management Annual Report 2015/16. (Pages 7 - 12) Consider report by Chief Officer Audit and Risk on progress made to deliver the Council's Risk Management Strategy including an update on improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness (copy attached).	15 mins
7.	Counter Fraud Annual Report 2015/16. (Pages 13 - 22) Consider report by Chief Officer Audit & Risk on the Council's counter fraud responsibilities and the progress made to deliver the Council's Counter Fraud Strategy 2015 including an update on improvement actions to refine the arrangements to tackling fraud at the Council (copy attached).	15 mins

8.	Audit and Risk Committee Annual Report 2015/16 and annual Self Evaluation. (Pages 23 - 40) Consider the Audit and Risk Committee Annual Report 2015/16 on their work for the year in fulfilling their remit based on their annual self-assessment (copies attached).	10 mins
9.	Financial Reporting & Scrutiny: Why the Accounts Matter. (Pages 41 - 46) Consider the report by Audit Scotland prepared for Local Government and published in February 2016, including appended Questions for elected members to consider as part of the accounts scrutiny and approval process (copy attached).	10 mins
10.	Scottish Borders Council Draft Reports and Accounts 2015/16. Consider various draft annual reports and accounts by Chief Financial Officer prior to their submission to the External Auditors (copies attached):	30 mins
	(a) Scottish Borders Council Draft Report and Accounts 2015/16	(Pages 47 - 162)
	(b) Draft Common Good and Trust Annual Report and Accounts 2015/16	(Pages 163 - 284)
	(c) Bridge Homes LLP	(Pages 285 - 302)
	(d) SB Cares Draft Annual Report and Accounts 2015/16	(Pages 303 - 344)
11.	Pension Fund Annual Report and Accounts 2015/16. (Pages 345 - 408) Consider draft annual report and accounts of the Scottish Borders Council Pension Fund by Chief Financial Officer prior to their submission to the External Auditors (copies to follow).	10 mins
12.	Any Other Items Previously Circulated.	
13.	Any Other Items which the Chairman Decides are Urgent.	

NOTES

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

Membership of Committee:- Councillors M. Ballantyne (Chair), J. Campbell, I. Gillespie, A. J. Nicol, S. Scott, B White (Vice-Chairman).

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SCOTTISH BORDERS COUNCIL AUDIT AND RISK COMMITTEE

MINUTES of Meeting of the AUDIT AND RISK COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St Boswells on Monday, 9th May, 2016 at 10.15 am.

Present:- Councillors M. Ballantyne (Chair), J. Campbell, I. Gillespie, A. J. Nicol, S. Scott and B White (Vice-Chairman). Mr M. Middlemiss and Mr H. Walpole.
Apologies:- Mr P. McGinley.
In Attendance:- Chief Executive, Depute Chief Executive People, Chief Financial Officer, Chief Officer Audit and Risk, Democratic Services Officer (P Bolson); Mr M. Swann – KPMG.

1. ORDER OF BUSINESS

The Chairman varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

**DECISION
NOTED.**

2. MINUTE

There had been circulated copies of the Minute of 29 March 2016.

**DECISION
APPROVED for signature by the Chairman.**

- 2.2 With reference to paragraph 1.2 of the Minute, Mr Swann advised that the matter was still ongoing and he hoped to be able to report to the next meeting of the Audit and Risk Committee.

**DECISION
NOTED.**

3. SCOTTISH BORDERS COUNCIL LOCAL SCRUTINY PLAN 2016/17

- 3.1 There had been circulated copies of a report by Audit Scotland setting out its Local Scrutiny Plan 2016/17 for Scottish Borders Council. The Plan was based on a shared risk assessment undertaken by a Local Area Network (LAN) comprising representatives of all the main scrutiny bodies that engaged with the Council. The report only identified risks within the Council which had been identified by the LAN or where scrutiny was planned as part of a national programme. The National Scrutiny Plan for 2016/17 was available on the Audit Scotland website.

- 3.2 It was reported that satisfactory progress had been made since the report for 2015/16. With regard to Health and Social Care Integration, the building blocks were now in place, providing a solid base for moving forward and undertaking the further work still required. The report explained that Community Planning Partnerships (CPP) follow-up work by Audit Scotland had been carried out in the Scottish Borders. Progress by the CPP had continued towards its priorities which included: Grow the Economy; Reduce Inequalities; and Maximise the Impact from the Low Carbon Agenda. Progress included the development of a Performance Management Framework for all three priority areas and streamlining and rationalising the groups and subgroups which fed into the CCP. Areas for further improvement had been identified and these were detailed in the Plan. The Community Empowerment (Scotland) Act 2015 had placed new requirements on the CPP which would require further development of its improvement agenda throughout 2016.

During 2015/16, a joint inspection of services for children and young people had been undertaken and led by the Care Inspectorate. The findings of this inspection would determine the need for any follow up scrutiny.

- 3.3 Audit Scotland had received correspondence from a member of the public requesting a review of a Council decision relating to the awarding of the waste management contract for the Scottish Borders. Members were advised that Audit Scotland were required to investigate such matters as they saw fit and following scrutiny, found that relevant processes had been adhered to and appropriate progress had been made in relation to addressing areas for improvement. It was noted that SBC had also requested KPMG to look at this decision independently of the public request.
- 3.4 Discussion followed and Members requested clarification on how the LAN could influence the work being carried out at a local level. One of the benefits of the LAN was that the group was able to bring relevant partners together to achieve a shared understanding of the issues on a local and wider level.

**DECISION
NOTED.**

MEMBER

Councillor White joined the meeting during consideration of the following item of business.

4. **SCOTTISH BORDERS COUNCIL ANNUAL GOVERNANCE STATEMENT 2015/16**
- 4.1 With reference to paragraph 6 of the Minute of 11 May 2015, there had been circulated copies of a report by the Chief Executive seeking approval of the Annual Governance Statement to be published in the Council's Statement of Accounts for 2015/16. The report explained that the CIPFA/SOLACE framework "Delivering Good Governance in Local Government" urged Local Authorities to review the effectiveness of their existing governance arrangements against their Local Code and to prepare a governance statement in order to report publicly on the extent to which they complied with their own Code on an annual basis, including how they had monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period. Part of the Audit & Risk Committee's remit was to assess the effectiveness of internal controls, risk management and governance arrangements in place and this included 'being satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflected the risk environment and any actions required to improve it, and demonstrated how governance supported the achievements of the authority's objectives'. The Annual Governance Statement 2015/16 was detailed in Appendix 1 to the report and this explained the Governance Framework, including the key elements of the Council's governance arrangements and the Review Framework, outlining the annual review process, overall opinion and areas of further improvement. In terms of overall corporate governance, it was the Chief Executive's opinion that, although there were a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council were considered sound. The Annual Governance Statement was informed by the self-assessment of compliance against the Local Code by the officer self-evaluation working group, the work of internal audit, external audit and inspection agencies, and by Depute Chief Executives' and Service Directors' assurance statements. This Statement would be published in the Statement of Accounts 2015/16. A number of areas for further improvement to ensure compliance with the Local Code were highlighted and were detailed in Appendix 1, paragraphs (a) to (h). The Chief Executive advised Members that the Council had improved and developed its Governance Framework and continued to demonstrate that the governance arrangements within which it operated were sound and effective.
- 4.2 Members were advised that the implementation of the new ICT arrangements was expected to complete at the end of 2016/17 and acknowledged the related benefits associated with the implementation of ERP in terms of financial systems and processes

within the Council. Members were also advised that the Integration Joint Board for Scottish Borders Health and Social Care Integration was now established and operational.

- 4.3 Members raised a number of questions which were answered by officers. It was explained that the Local Code was reviewed on an annual basis and was a high level statement for the Council. The self-assessment group had concluded that revisions were required to the Local Code to ensure it reflected the changing context of Scottish Borders Council including SB Cares, Health and Social Care Integration etc. The revised Local Code would be presented for approval by Scottish Borders Council in due course. In terms of governance of ALEOs, Members were advised that each organisation was responsible for its own Governance arrangements. The Council's Audit and Risk Committee did maintain a strategic overview of governance for all ALEOs and could request that the arrangements were amended as necessary. It was agreed that the text at paragraph (a) of the Annual Governance Statement 2015/16 be amended to include detail specific to monitoring governance of ALEOs.

DECISION

- (a) **NOTED the details of the Annual Governance Statement 2015/16 as detailed in Appendix 1 to the report subject to amendments to text at paragraph (a) to include details specific to monitoring governance of ALEOs; and**
- (b) **APPROVED the actions identified by Management to improve internal controls and governance arrangements.**

5. INTERNAL AUDIT WORK 2015/16 TO MARCH 2016

- 5.1 With reference to paragraph 3 of the Minute of 29 March 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit, the recommended audit actions agreed by management to improve internal controls and governance arrangements and internal audit work currently in progress. During the period 1 to 31 March 2016, a total of two final internal audit reports had been issued, namely Salaries (including expenses) and Revenues (Council Tax and Non-Domestic Rates). There was 1 recommendation made (1 Priority 3 Low Risk) specific to one of these reports. Management had agreed to implement the recommendation to improve internal controls and governance arrangements. An executive summary of the final internal audit reports issued, including audit objectives, findings, good practice, recommendations and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was detailed in the Appendix to the report.
- 5.2 With reference to the final report on Salaries, it was noted that Management teams were more aware of the levels of overtime being worked and would continue to scrutinise to ensure that unforeseen increases in overtime did not occur except in emergency situations such as inclement weather or client welfare. The report also highlighted that line managers were responsible for the recovery of all equipment when staff left Council employment and for the completion of the HR Leaver form which ensured accurate and correctly authorised payment of salaries.
- 5.3 The report explained that some areas for improvement had been identified relating to existing systems for income charging, billing and collection. As these systems were soon to be replaced, agreement had been reached with the Chief Financial Officer that the project scope for a replacement system would address the improvements required during the design process. Further assurances had been received from Management that full reconciliation of physical to recorded Asset Register information would be addressed as part of the Business World ERP system project.

- 5.4 Discussion followed and Members were advised that there were a number of ways in which cover was provided during emergency and unexpected situations, including the use of flexible hours and time off in lieu. Officers provided clarification on a number of staff-related queries. In respect of staff absence and in particular when it related to work-based stress, assurance was given that staff welfare was a priority and that the SBC Absence Management policy enabled managers to monitor patterns of absence and how this could be dealt with throughout the year. Officers and staff also had the opportunity to discuss a range of issues during Performance Review and Development (PRD) meetings.

DECISION

- (a) **NOTED the final reports issued in the period from 1 to 31 March 2016 to deliver the Internal Audit Annual Plan 2015/16; and**
- (b) **ACKNOWLEDGED that it was satisfied with the recommended audit actions agreed by management.**

6. INTERNAL AUDIT ANNUAL REPORT 2015/16

- 6.1 There had been circulated copies of a report by the Chief Officer Audit and Risk presenting the Committee with the Internal Audit Annual Report for the year to 31 March 2016, which included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy and effectiveness of the Council's overall control environment. In support of the overall governance arrangements of the Council, the Local Code of Corporate Governance and the Public Sector Internal Audit Standards required the Chief Officer Audit and Risk to provide an annual internal audit opinion and report to the Chief Executive on the adequacy and effectiveness of the Council's internal control and governance arrangements to support the preparation of the Annual Governance Statement. The Remit of the Audit and Risk Committee indicated that it should ensure an adequate framework of internal control, risk management and governance throughout the Council. The Chief Officer Audit and Risk's opinion, based on internal audit reviews, risk assessments and knowledge, was that the systems of internal financial control and internal control and governance arrangements were operating satisfactorily, with some improvements being identified. The Chief Officer Audit and Risk's Annual Report for 2015/16 was detailed at Appendix 1 to the report.
- 6.2 The report advised that two significant strategic developments for service delivery had been undertaken, each requiring different governance arrangements to be in place. In April 2015, the Limited Liability Partnership Strategic Governance Group (LLP SGG) was established to monitor and control functions required by the Council in connection with SB Cares when this organisation was set up to deliver adult care services. In April 2016, the Integrated Culture and Sports Trust (Live Borders) was established and the Council's Executive Committee, by means of a Member-Trustee Liaison Group, assumed a performance monitoring role for the delivery of the agreed outcomes.
- 6.3 During the discussion that followed, Members were advised that audit recommendations in respect of target dates were adhered to whenever possible and were followed up by Internal Audit, especially if they became overdue. There were occasions when recommendations were superseded and therefore no longer relevant when alternative solutions were required to manage the identified risks or when it was necessary to grant extra time to complete recommendations, eg delays in the implementation of a new IT system or lead in times for the implementation of new legislation. Ms Stacey explained the way in which this information was recorded and used in Covalent to trigger action notifications to officers. Members requested clarification regarding the number of audit days and type as presented in paragraph 3.2 of the report and Ms Stacey explained that specific pieces of work were sometimes completed within less than planned audit days and some used more to reflect the audit scope and any unplanned work relating to counter fraud was included in the "Other" category. Following discussion, it was agreed that the report should be amended to include more detailed information relating to the

analysis of audit type and audit days and that this should be applied to future reports. The process for managing Internal Audit time was outlined to Members and Ms Stacey emphasised that any areas for concern were highlighted in the Internal Audit mid-term performance and annual reports.

DECISION

- (a) NOTED the Internal Audit Annual Report for 2015/16.**
- (b) AGREED that:-**
 - (i) the report be amended to include more detailed information relating to the analysis of audit type and audit days and that this should be applied to future reports; and**
 - (ii) Internal Audit Annual Report for 2015/16 be published on the Council's website.**

7. PENSION FUND ANNUAL GOVERNANCE STATEMENT 2015/16

With reference to paragraph 7 of the Minute of 11 May 2016, there had been circulated copies of a report by the Chief Financial Officer seeking approval of the Pension Fund Annual Governance Statement to be published in the Statement of Accounts 2015/16 of Scottish Borders Council Pension Fund. The report explained that the Local Government Pension Scheme (Scotland) Regulations 2014 required Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards were established via a number of best practice principles. Part of the Audit and Risk Committee's remit was to assess the effectiveness of internal controls, risk management, and governance arrangements in place for the Scottish Borders Council Pension Fund. This included being satisfied that the Pension Fund Annual Governance Statement demonstrated compliance with its governance policy and best practice principles and identified any actions required to improve governance arrangements. The Pension Fund Annual Governance Statement 2015/16 detailed the Governance Framework, including the key elements of the Pension Fund's governance arrangements, as shown in Appendix 1 to the report. It was the Chief Financial Officer's opinion that the overall governance arrangements of the Pension Fund were considered sound. The Annual Governance Statement was informed by the self-assessment of the Fund's compliance with the best practice principles; the work of professional accountancy staff; and the work of internal audit, external audit and inspection agencies and included any improvement actions which had been identified. This Statement would be published in the Pension Fund Annual Report and Accounts for the year to 31 March 2016. The Chief Financial Officer advised Members that controls relating to the Pension Fund were operating effectively and that full compliance had been recorded for all applicable principles as detailed in Appendix 1. The annual review of the overall governance framework for the Pension Fund had identified two areas where improvements could be made, namely: development of a communications plan to improve awareness and understanding of stakeholders and encourage maximum membership of the Fund; and full evaluation of the implications of new national policy on freedom of choice of pension sums. Discussion followed in respect of how the Pension Fund might be affected by the new national policy changes and the need for identified risks to be included in the Pension Fund Risk Register. Members were advised that a three year review would be carried out and reported to Members at that time. With reference to paragraph (h) of the Pension Fund Annual Governance Statement 2015/16, it was agreed that this should be amended to demonstrate that all professional advice had been sought.

DECISION

- (a) NOTED the Pension Fund Annual Governance Statement 2015/16 as detailed in Appendix 1 to the report subject to amendments to text at**

**paragraph (h) to demonstrate that all professional advice had been sought;
and**

- (b) AGREED to approve the actions identified by Management to improve internal controls and governance arrangements.**

The meeting concluded at 12.30 pm

Risk Management Annual Report 2015/16

Report by Chief Officer Audit & Risk

Audit and Risk Committee

28 June 2016

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of this report is to provide members with an overview of Scottish Borders Council's responsibilities in respect of risk management and the progress made to deliver the Council's Risk Management Strategy 2015 including an update on improvement actions to refine the arrangements to managing risk at the Council.**
- 1.2 Effective Risk Management is one of the foundations of effective Corporate Governance and is recognised as such in the Council's Local Code of Corporate Governance. Compliance with the principles of sound corporate governance requires the Council to adopt a coherent approach to the management of the risks that it faces every day. Common sense serves to underline the message that better and more assured risk management will bring many benefits to the Council and the people it serves.
- 1.3 Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.
- 1.4 The Risk Management review was undertaken during 2014, the findings of which were presented to Audit and Risk Committee in January 2015 along with recommended improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness. The status of the corporate risk management improvement actions as at 17 March 2016 is shown in Appendix 1.
- 1.5 The Council continues to refine its approach to Risk Management and embed these key aspects into the management practices of the Council.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Risk Committee**
 - a) **acknowledges that it is satisfied with the progress of the risk management improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness; and**
 - b) **considers whether any further action is required.**

3 RISK MANAGEMENT BACKGROUND

- 3.1 Effective Risk Management is one of the foundations of effective Corporate Governance and is recognised as such in the Council's Local Code of Corporate Governance. Compliance with the principles of sound corporate governance requires the Council to adopt a coherent approach to the management of the risks that it faces every day. Common sense serves to underline the message that better and more assured risk management will bring many benefits to the Council and the people it serves.
- 3.2 Management have the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks that potentially endanger or have a detrimental effect upon the achievement of the Council's objectives and its people, property, reputation and financial stability whether through core service delivery or through a programme of change.
- 3.3 Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.

4 RISK MANAGEMENT REVIEW PROGRESS

- 4.1 The risk management landscape is dynamic and as the Council, in common with other local authorities, increasingly moves towards partnerships and alternative delivery models, the spectrum of risks that the Council is exposed to also increases. These factors led the Chief Officer Audit & Risk to commission a review of the Council's approach to managing risk in 2014.
- 4.2 In summary, the Corporate Risk Management Review 2014 concluded that although risk management arrangements were in place they were not fully embedded within the business planning and performance management, monitoring and reporting processes. Risks should be aligned with corporate objectives and should therefore be considered within the business planning process. This ensures that the risks to achieving these objectives are identified and prioritised.
- 4.3 The findings of Corporate Risk Management Review 2014 were presented to the Audit and Risk Committee in January 2015 along with recommended improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness. The Audit and Risk Committee is expected to scrutinise progress with the implementation of the refined Risk Management approach across the Council, and to assess effectiveness of risk management arrangements.
- 4.4 An Internal Audit review was carried out during 2015/16 to provide an independent and objective assessment of the progress made on the implementation of the corporate risk management improvement actions arising from the Risk Management Review of 2014 including, policy, strategy, training and toolkits. The status of the corporate risk management improvement actions arising from the Internal Audit review as at 17 March 2016 is shown in Appendix 1.
- 4.5 The Council's approach to managing risk has been refined in 2015. The revised Corporate Risk Management Policy statement (February 2015) sets out the Council's systematic approach to the identification, evaluation and effective management of the risks it faces every day, including roles and responsibilities. The Corporate Risk Management Strategy (February 2016) sets out the arrangements for applying the risk management policy in practice, building on the foundation of existing risk management arrangements and adding value by aligning risk management to the business planning and performance management processes.

- 4.6 Management continue to be advised and supported by central specialist support resource to fulfil their responsibilities for managing risk. A new 1 FTE Corporate Risk Officer post was established in 2015 within the Audit & Risk service arising from an internal service restructure and required reduction in staff resources to deliver financial savings.
- 4.7 The Corporate Risk Officer provides professional advice and support and maintains an overview of risk management across the Council to ensure systems of identification, evaluation and management of key risks facing the Council continue to be robust. These include scheduling and facilitation of risk reviews, provision of guidelines, refresh on risk management practices during risk workshops, and delivery of Risk Management training for managers within the Corporate Training Programme. These risk management advisory and support services are provided to the Council, Scottish Borders Pension Fund, SB Cares and Live Borders (formerly BSLT).
- 4.8 As a result of the alignment of the Risk Management Process with the Business Planning Process for 2016/17 the Council now has a standard risk management process with risk registers at Corporate, Strategic and Operational business levels uploaded to Covalent, the Council's performance management system. The benefits of the risk management improvement actions will not be fully realised until the implementation of the upgraded business planning and performance management in Covalent, integrated with risk management, is up and running.
- 4.9 The Risk Management training for managers within the Corporate Training Programme is supported by senior management. The Course Objectives are: Understand why the management of risk is an essential part of management responsibilities; Understand how managing risks is fundamental to business plans; Be able to identify risks to achieving objectives and to put actions in place to mitigate these risks; and Understand how risks are analysed, assessed, recorded and monitored in the Council. During the year a total of 12 training events were delivered by the Corporate Risk Officer which were attended by 96 managers, and positive feedback was received. Further training course dates have been scheduled in 2016/17 to meet demand though further steps need to be taken to ensure that all relevant managers complete their training.
- 4.10 Some examples are set out below of specific work carried out by the Corporate Risk Officer with relevant managers in 2015/16 which are out with the business planning remit and therefore not uploaded to Covalent:
- The transfer of Scottish Borders Pension Fund's previous risk register to the new format which clearly states the causes/triggers of the risks and the controls to mitigate them. The wording has also been reviewed and revised as appropriate into plain English. This work is to ensure that risks and mitigations are clearly understood by the Pension Fund Committee and Board to fulfil their roles;
 - A significant piece of work was done to provide the Procurement service with a risk register which ensures the requirements of procurement legislation are met;
 - Information Governance work to ensure practices reflected in the information risk management strategy comply with corporate risk management procedures. A risk register is in place at the strategic level owned by the Senior Information Risk Owner (SIRO). There is a clear line of escalation between services and the Information Team to ensure that risks are identified and controlled; and
 - Involvement in the Roads Review from the outset in recognition of the importance of risk management at the beginning of a project.

- 4.11 Steps are underway in 2016/17 to focus on other areas where work needs to be done to confirm systematic and effective risk management arrangements including partnership arrangements, transformation and change programmes and projects, and alternative delivery models.
- 4.12 The year-2 programme of work for 2016/17 for the Corporate Risk Officer will build on work undertaken in 2015/16, the positive outcomes and working relationships that have been established. One such example, demonstrating the effectiveness of the risk management training course, is the work requested by a course attendee that has taken place in the first few months of 2016/17 with the Child Protection Committee to develop a risk register. In light of unprecedented attention on historical cases relating to standards of child protection and in connection with external scrutiny and inspection work, risk management is being utilised to enhance the complex and multi-agency processes that are in place to provide robust child protection across the Scottish Borders. Similar work is planned with the Adult Protection Committee and the Offender Management Committee to enhance the assurance framework in those service areas.
- 4.13 During 2015/16 various Service Directors representing the diverse range of Council services have made presentations to the Audit and Risk Committee at each of their meetings on the strategic risks facing their services and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within services. This approach has provided the opportunity to the elected and external members of the Committee as part of their oversight remit to gain a fuller understanding of how Management are discharging their risk management responsibilities in practice and to enable them to hold Management to account on the application of revised Corporate Risk Management Policy.
- 4.14 The above demonstrates that as a result of the Corporate Risk Management Review 2014 and the implementation of recommended improvement actions during 2015/16, the management of risks is being embedded and recognised as an essential part of management practice above and beyond the business planning remit. It is becoming an essential part of decision making and should help to ensure that decisions are taken and risks are fully understood. Risk management is moving away from solely being a process to being an essential part of management activities which is the key objective of the Corporate Risk Management Policy 2015.

5 IMPLICATIONS

5.1 Financial

There are no financial implications as a direct result of the report. All the costs involved are contained within the central Risk Management (1 FTE Corporate Risk Officer) or departmental budgets. Any additional costs arising from enhanced risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

5.2 Risk and Mitigations

The report sets out an overview of Scottish Borders Council's responsibilities in respect of risk management. It also describes the progress made on implementing the recommended improvements arising from the 2014 review to refine the risk management arrangements at the Council to ensure their on-going effectiveness.

5.3 Equalities

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

5.4 Acting Sustainably

No direct economic, social or environmental issues with this report.

5.5 Carbon Management

No direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Corporate Management Team has been consulted on this report and any comments received have been incorporated into the report.

6.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit & Risk **Signature**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036
Justine Leuty	Corporate Risk Officer Tel 01835 824000 Ext 8076

Background Papers: Scottish Borders Council's Corporate Risk Management Policy statement (February 2015) and Corporate Risk Management Strategy (February 2016)

Previous Minute Reference: Council 19 February 2015 and 25 February 2016; Audit and Risk Committee 19 January 2015 and 23 November 2015

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

Contact us at Justine Leuty, jmleuty@scotborders.gov.uk

Improvement Actions Status as at 17 March 2016 (Internal Audit review 2015/16)

Ref	Improvement Action	Progress to Date	Status / target date
1	Revised Risk Management Policy	The revised Risk Management Policy was approved by Council on 19 February 2015 on recommendation by Audit and Risk Committee on 19 January 2015.	Complete
2	Revised Risk Management Strategy, Procedures, Processes and Guidelines	The revised Risk Management Process Guide was approved in September 2015. The revised Risk Management Strategy was approved by Council on 25 February 2016 on recommendation by Audit and Risk Committee on 23 November 2015.	Complete
3	Alignment of the Risk Management Process with the Business Planning Process	The plan is that this work will be completed as part of the 2016/17 Business Planning cycle.	Work in progress subject to full implementation of the Business Planning process
4	Risk Management Training Programme developed and delivered	Risk Management Training on the revised policy and process was developed and a programme launched during 2015. Corporate Management Team in their role as champions of risk management has taken a strong interest in ensuring that all relevant managers complete their training.	Work in progress; Due date 31 Dec 2016
5	Facilitated Risk Management Workshops to help service managers identify their risks	Facilitated Workshops for 2015/16 were led by the Corporate Risk Officer. This resulted in the development of Risk Registers for the majority of service areas. The Risk Register review process is underway for 2016/17.	Work in progress; Due date 31 May 2016
6	Use of Covalent	Risk Registers were uploaded onto Covalent for 2015/16. As yet the 2015/16 Action Plans (implementing the Business Plans) have not been uploaded onto Covalent. This has meant that Actions, PIs and Risks have not yet been linked and therefore the risk reporting facility not enabled. It is the intention that the 2016/17 Business Planning cycle will ensure that this work is done.	Work in progress; Due date 31 May 2016
7	Clarification of roles and responsibilities for risk management including escalation	Roles and Responsibilities have been clarified in the Policy Statement and Strategy which includes clarification of risk escalation.	Complete
8	Standardisation of Risk Reporting reports from Covalent to follow Performance Management Reporting timetable	It is intended that risk reporting be facilitated through Covalent. Any delays to input of Action Plans, PIs and Risks into Covalent for the new Business Planning year 2016/17 will impact the risk reporting facility.	Work in progress; Due date 31 May 2016

COUNTER FRAUD ANNUAL REPORT 2015/16

Report by Chief Officer Audit & Risk

AUDIT AND RISK COMMITTEE

28 June 2016

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Risk Committee with an overview of the Council's responsibilities in respect of fraud prevention, detection and action and the progress made to deliver the Council's Counter Fraud Strategy 2015 including an update on improvement actions to refine the arrangements to tackling fraud at the Council and the Annual Fraud Report 2015/16.**
- 1.2 The Council is committed to minimising the risk of loss due to fraud, theft or corruption and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. The primary responsibility for the prevention, detection and investigation of fraud rests with Management. Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management. Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.
- 1.3 The Council during 2015 refreshed its approach to tackling fraud with a refocus on prevention and detection using fraud risk assessment at its core. There is a 3-year counter fraud strategy and associated improvement plan to embed anti-fraud culture across SBC, taking account of reducing resources. The current position of improvements actions arising from that review are shown in Appendix 1.
- 1.4 The current requirement for reporting frauds and irregularities to Audit Scotland is the reporting of all frauds and irregularities greater than £5,000 where frauds have been perpetrated due to weaknesses in internal controls. There were no frauds greater than £5,000 during 2015/16. Though these are an important performance indicator of how effective the Council's fraud prevention and detection measures are, the Annual Fraud Report to the Audit and Risk Committee includes all known frauds.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Risk Committee:**
 - a) **Considers the counter fraud work undertaken to deliver the strategy and whether any further action is required; and**
 - b) **Notes the content of the annual fraud report 2015/16.**

3 BACKGROUND

- 3.1 Scottish Borders Council is committed to minimising the risk of loss due to fraud, theft or corruption and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. The primary responsibility for the prevention, detection and investigation of fraud rests with Management.
- 3.2 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud. This is set out in the Internal Audit Charter that was approved by Audit and Risk Committee 29 March 2016 as follows:
- “Reviewing the effectiveness of controls put in place by Management to manage the risk of fraud. This requirement may involve Internal Audit in the following roles:
- reviewing and recommending improvements to fraud prevention controls and detection processes put in place by Management;
 - investigating the cause of fraud;
 - considering fraud risk in every audit;
 - advising the Audit and Risk Committee on counter fraud matters;
 - leading, assisting or liaising in fraud investigations where appropriate and requested by Management; and
 - responding to whistleblowers.”
- 3.3 Part of the Audit and Risk Committee’s role is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.

4 COUNTER FRAUD MANAGEMENT REVIEW PROGRESS

- 4.1 The changing context in which local government services are delivered is happening against a backdrop of depressed economic activity in which the fraud risk tends to increase. Harder times tend to lead to an increased motivation to defraud. These factors led the Chief Officer Audit & Risk to commission a review of the Council’s approach to tackling fraud in 2014.
- 4.2 The Corporate Counter Fraud Review 2014 concluded it important to embed a strong counter fraud culture as fundamental to the success of an effective response to fraud and identified the vital part played by Corporate Management Team and senior management in leading behaviours and behavioural change within the organisation and its partners and customers.
- 4.3 The findings of Corporate Counter Fraud Review 2014 were presented to the Audit and Risk Committee in June 2015 along with recommended improvement actions to refresh the Council’s approach to tackling fraud. The Audit and Risk Committee is expected to scrutinise progress with the implementation of the improvement actions, to oversee the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.
- 4.4 An Internal Audit review was carried out during 2015/16 to provide an independent and objective assessment of the progress made on the implementation of the counter fraud improvement actions arising from the Corporate Counter Fraud Review 2014. The status of the counter fraud improvement actions arising from the Internal Audit review as at 17 March 2016 is shown in Appendix 1.
- 4.5 Tackling fraud is an integral part of protecting public finances. Further specific details on the Management arrangements that are in place at the Council for the prevention, detection and investigation of fraud are set out in the paragraphs below to ensure the Council’s on-going resilience to the threats of fraud, theft, crime and corruption.

- 4.6 A Corporate Fraud Working Group (CFWG) has been established in 2015, chaired by Chief Officer Audit & Risk, involving representatives from across the Council's services. The initial focus of the CFWG was to undertake a mapping exercise and gap analysis to determine whether SBC's Policy Framework complied with that identified as the key minimum requirement within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)'. A report in February 2016 to CFWG concluded that SBC was substantially compliant with the CIPFA Code, and specific improvement actions were agreed and progressed to address any gaps.
- 4.7 The Council's approach to tackling fraud has been refreshed in 2015 with a refocus on prevention and detection using fraud risk assessment at its core to embed anti-fraud culture across SBC, taking account of reducing resources. The revised Corporate Counter Fraud Policy (August 2015) sets out the Council's statement towards tackling fraud, theft and corruption, including roles and responsibilities, which is supported by the Counter Fraud Strategy for putting this into practice. The Counter Fraud Strategy (August 2015) sets out the Council's position on creating a counter fraud and corruption culture, plans and policies on how to deal with fraud, theft or corruption, deterrence and detection measures, training and awareness, action in response to suspected frauds, and monitoring and review of outcomes.
- 4.8 Since March 2015, when the Council's Housing Benefit Fraud investigation team of 3.57 FTE TUPE-transferred to the DWP, the investigation of Housing Benefit fraud is now the responsibility of their specialist fraud investigation service (SFIS). All Housing Benefit suspected fraud is now referred to SFIS.
- 4.9 A new 1 FTE Corporate Fraud and Compliance Officer (CFCO) post was established in 2015 within the Audit & Risk service to ensure that the Council is able to respond to corporate fraud issues and perform residual tasks following the establishment of SFIS, accommodated within the revised budget reflecting the reduced external funding and delivery of financial savings. Following a recruitment process an appointment was made with the successful candidate commencing in June 2015 and undertaking a formal course of training provided by CIPFA to become an Accredited Counter Fraud Specialist in December 2015. The initial deployment of the CFCO was to support the CFWG in its work and to lead on the implementation of the counter fraud improvement actions.
- 4.10 The fraud risk assessment work continues in 2016/17 using shared practice from other sources. The "Fighting Fraud and Corruption Locally: Local Government Counter Fraud and Corruption Strategy 2016-2019" states: Known Fraud Risks Remaining Significant include Tenancy, Procurement, Payroll, Council Tax, Blue Badge, Grants, Pensions, Personal budgets, Internal Fraud, and Identity Fraud; and the Emerging / Increasing Fraud Risks include Business rates, Right to buy, Money Laundering, Insurance Fraud, Commissioning of Services, and Cyber Crime. These are evaluated for relevance to Scottish Borders Council and a fraud risk assessment is carried out in respect of their likelihood / impact in order to deploy the CFCO to targeted areas of high fraud risk assessment with the aim of optimising potential returns.
- 4.11 An example of work underway early in 2016/17 is the CFCO review of the Council Tax Single Person Discount matches to check entitlement and, depending on customer response and intelligence gathered, Customer Services amend council tax records / bills to enable the Council to confirm that discounts and exemptions are only applied to those who are entitled to them and to optimise Council Tax income.

5 ANNUAL FRAUD REPORT 2015/16

- 5.1 The current requirement for reporting frauds and irregularities to Audit Scotland is the reporting of all frauds and irregularities greater than £5,000 where frauds have been perpetrated due to weaknesses in internal controls. There were no frauds greater than £5,000 during 2015/16 (nil in 2014/15; 1 relating to Non Domestic Rates fraud £95,755 in 2013/14). Though these are an important performance indicator of how effective the Council's fraud prevention and detection measures are, the Annual Fraud Report to the Audit and Risk Committee reports all known frauds.
- 5.2 There is one case of corporate fraud <£5,000 which was perpetrated by an employee who was subsequently dismissed. The investigation was carried out due to suspected missing vouchers <£1,000. During the investigation process the internal control matters were discussed and improved practices were implemented in respect of security of payment media. (Corporate fraud cases <£5,000 - nil in 2014/15; 1 in 2013/14 relating to an employee embezzlement at a day centre and a connected social enterprise).
- 5.3 In addition to its own internal measures, the Council participates in the National Fraud Initiative (NFI) - computerised data matching between public bodies carried out with statutory authority and administered by Audit Scotland - as active detection and prosecution of fraudsters is a vital deterrent to others contemplating defrauding the public purse. The Council's external auditors, KPMG, carry out reviews of the Council's NFI participation on behalf of Audit Scotland and complete periodic returns to Audit Scotland. Findings are included in SBC's external audit reports.
- 5.4 KPMG's June 2015 return reported within the Annual Audit Report 2014/15 resulted in a red grading (defined by Audit Scotland as "unsatisfactory where improvement is required as a priority"). As a result, the Assistant Auditor General wrote to the Council highlighting the area of significant concern that no match investigation work had started. KPMG followed up progress in February 2016 and reported the position within the Interim Management Report 2015/16 as follows: Scottish Borders Council received a total of 3,990 matches; 2,827 matches had been closed of which 798 were recommended matches. The overall rating of the Council's participation was assessed as satisfactory ("green"). Scottish Borders Council has recorded no benefit outcomes from NFI 2014/15. Audit Scotland has indicated that the NFI 2014/15 national report will be published on 30 June 2016.
- 5.5 If significant amounts of fraud or error are not found and the fraud detection measures have been utilised properly, Management and the Audit and Risk Committee can take assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud.

6 IMPLICATIONS

6.1 Financial

The Council is committed to minimising the risk of loss due to fraud, theft or corruption by putting in place effective internal control systems designed to prevent and detect fraud and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. This includes the operational costs of resourcing the Corporate Fraud & Compliance Officer (1 FTE) within the Audit & Risk service. Any additional costs arising from enhanced fraud risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

6.2 Risk and Mitigations

- (a) Tackling fraud is an integral part of protecting public finances. Fraud has a serious impact on all parts of the economy. The National Fraud Authority in its 2013 Annual Fraud Indicator report estimates that fraud costs the UK around £52 billion per year. The cost of fraud to the public sector equates to £20.6 billion of which £2.1 billion relates to local government.
- (b) There is a risk that frauds will not be detected and acted upon though is being mitigated by way of fraud prevention, detection and investigation measures that are underpinned by the Council's Counter Fraud Strategy approved in August 2015. By improving fraud prevention controls it reduces the opportunity for fraud to enter the system and is likely to reduce the levels of fraud detected through exercises such as the National Fraud Initiative.
- (c) There is a reputational risk for the Council if its internal control, risk management and governance arrangements are assessed by external audit and inspection bodies as inadequate. The Annual Fraud Report is one way to evidence that this risk has been mitigated.

6.3 Equalities

Equalities and diversities matters are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

6.5 Carbon Management

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

6.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

7 CONSULTATION

- 7.1 The Corporate Management Team has been consulted on this report and any comments received have been incorporated in the final report.
- 7.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated in the report.

Approved by

Jill Stacey, Chief Officer Audit & Risk

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036
James Collin	Internal Audit Manager Tel: 01835 825232

Background Papers: Scottish Borders Council's Corporate Counter Fraud Policy Statement and Corporate Counter Fraud Strategy

Previous Minute Reference: Scottish Borders Council 27 August 2015; Audit and Risk Committee 30 June 2015

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Improvement Actions Status as at 17 March 2016 (Internal Audit review 2015/16)

In 2014 a Corporate Counter Fraud Review was undertaken to assess the efficacy of current fraud prevention, detection and investigation practices, identify improvements and inform the revised strategy and policy. The review came to an end in October 2014 and the results were reported to the Audit and Risk Committee at its meeting of 30 June 2015 with recommendations for approval of the revised Strategy and Policy Statement along with a list of improvement actions. A Summary showing the status of these actions is set out below:

Ref	Improvement Action	Progress to Date	Status / target date
4.1	Revised policies, procedures and guidelines updated to reflect the revised Corporate Counter Fraud Strategy and approach including clarification of Roles and Responsibilities	Revised Corporate Counter Fraud Strategy and the revised Corporate Counter Fraud Policy Statement were approved by SBC 27 August 2015. Roles and Responsibilities are clarified within the policy statement.	Complete
		<p>A Counter Fraud Policy Review is being undertaken by the Corporate Fraud Working Group (CFWG) who have identified primary and secondary policies relating to fraud that require attention. A mapping exercise and gap analysis was then undertaken to determine whether SBCs Policy Framework complied with that identified as the key minimum requirement within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)'. A report presented to the Group by the Corporate Fraud and Compliance Officer (CFCO) on 22 February 2016 concluded that SBC was substantially compliant with the CIPFA Code but not completely and there were some gaps where policies either were in need of updating or where there were no supporting processes or procedures. As a result of the findings, improvement actions and further review recommendations have been presented to the Group for the responsible policy owners to take forward. Additionally the CFCO has produced the following to support the Code of Conduct and obligations of the Bribery Act 2010:</p> <ul style="list-style-type: none"> • New guidance document on Gifts and Hospitality • New guidance document on Register of Interests • New electronic Registers for the above developed through Resource Link • Web information page on Whistleblowing <p>Over and above the minimum key CIPFA Code policy requirement Standard Operating Procedures are being drafted that guide managers in the conducting of corporate fraud investigations.</p>	Work in Progress (by March 2017)

Ref	Improvement Action	Progress to Date	Status / target date
4.2	Establishment of Corporate Fraud Team	<p>A Corporate Fraud and Compliance Officer (CFCO) has been recruited internally and has been in post since June 2015.</p> <p>He undertook a formal course of training provided by CIPFA and is now an Accredited Counter Fraud Specialist.</p>	Complete
4.3	Awareness training on prevention and detection of fraud to be developed and delivered to staff	<p>The CFCO has developed the following eLearning modules which were approved by the CFWG 22 February 2016 and are to be rolled out via SB Learn:</p> <ul style="list-style-type: none"> • Fraud Awareness • Bribery Act 2010 	Work in progress (by April 2016)
4.4	<p>Application of Risk Management policy to Corporate Fraud Risk identification assessment control and monitoring including reflection of fraud risk areas within Risk Registers as appropriate</p> <p style="text-align: center;">Page 20</p>	<p>A Fraud Risk Management Process and Toolkit have been developed (Feb 2016). The basic methodology is the same as that used for the Corporate Risk Management process though it differs in that the criteria for scoring has been deemed to be more appropriate to Fraud.</p> <p>A Corporate Fraud Risk Register is under development.</p> <p>The Finance Risk Register on Covalent includes the risk: CEFIN008 – Exposure to Fraud. The risk matrix score of this is AMBER (6) with internal controls scored as partially effective.</p>	Work in Progress (by Sept 2016)
4.5	Proactive approach to fraud detection and communication of successful cases	<p>Using the experience of the previous National Fraud Initiative (NFI) exercises where datasets were submitted to Audit Scotland and matches to review / investigate were sent back to the Council, it is envisaged that dataset matching could be done, and more regularly, in house.</p> <p>In conjunction with the current NFI exercise (where the CFCO is planning with Customer Services the approach that will be adopted for the review of the Council Tax Single Person Discount matches) the CFCO will try to recreate the results of external matching by using in-house software.</p>	Work in Progress (by Sept 2016)

Ref	Improvement Action	Progress to Date	Status / target date
4.6	Sharing of Best Practice and Joint Working in countering fraud with External Partners and other Local Authorities	<p>The Counter Corporate Fraud Strategy states that SBC will continue to work with other organisations to manage its fraud risks and share best practice through participation in counter fraud forums at local and national levels. And that there will be further joint working in countering fraud in particular in response to the risks from organised crime.</p> <p>Between them the Chief Officer Audit & Risk and the Corporate Fraud & Compliance Officer attend the following groups and forums:</p> <ul style="list-style-type: none"> • The Cross Sector Counter Fraud Forum - hosted by the Scottish Government • SLAIG (Scottish Local Authorities Investigators Group) • CIPFA (Accredited Counter Fraud Specialists Group) • National Fraud Initiative (NFI) - Audit Scotland • NAFN (National Anti-Fraud Network - an organisation that provides a wide range of data services to members) • Counter Fraud Conference - held by Scottish Government • CIPFA - occasional training sessions • Ernst & Young - Public Sector Counter Fraud Seminars • SBC Serious Organised Crime Officer Working Group - in partnership with Police Scotland • NHS Borders Countering Fraud Operational Group – attended by Senior Internal Auditor • NHS Scotland Counter Fraud Services – annual visit to NHS Borders 	On going
4.7	Counter Fraud Arrangements of Alternative Service Delivery Models and Corporate Transformation Agenda.	<p>The Council has a statutory duty under Following the Public Pound and therefore needs to be satisfied that, where services are commissioned via Alternative Service Delivery models, the provider meets the required standard of governance arrangements including counter fraud measures. The Council can support these operations in their early years.</p> <p>This work is at an early stage.</p>	Work in Progress (by March 2017)

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Audit and Risk Committee Annual Report 2015/16

Report by Chief Officer Audit & Risk

Audit and Risk Committee
28 June 2016

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members with the Audit and Risk Committee Annual Report 2015/16 which incorporates its annual self-assessment using the CIPFA Audit Committees Guidance.**
- 1.2 It is important that the Council's Audit and Risk Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance.
- 1.3 The CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) includes the production of an annual report on the performance of the Audit and Risk Committee against its remit for submission to the Council. The Audit and Risk Committee Annual Report 2015/16 is appended to this report as Appendix 1 for consideration. This is the eighth such annual report and Scottish Borders Council continues to be a lead authority in adopting this best practice.
- 1.4 The Audit and Risk Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 9 May 2016 facilitated by the Chief Officer Audit & Risk. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration. The outcome of the self-assessments was a high degree of performance against the good practice principles though some areas of improvement were identified to enhance the effectiveness of the Committee.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Risk Committee:**
- a) Approves the Audit and Risk Committee Annual Report 2015/16 (Appendix 1) which incorporates its self-assessments (Appendices 2 and 3) using the CIPFA Audit Committees Guidance; and**
 - b) Agrees that the Audit and Risk Committee Annual Report 2015/16 should be presented to the Council at its next meeting on 25 August 2016 and then published on the Council's website.**

3 BACKGROUND

- 3.1 It is important that the Council's Audit and Risk Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance.
- 3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance). It incorporates CIPFA's 2013 Position Statement: Audit Committees in Local Authorities and Police which sets out CIPFA's view of the role and functions of an Audit Committee.
- 3.3 The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit and Risk Committee against its remit for submission to the Council. The Audit and Risk Committee Annual Report 2015/16 is appended to this report as Appendix 1 for consideration. This is the eighth such annual report and Scottish Borders Council continues to be a lead authority in adopting this best practice.
- 3.4 The Audit and Risk Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 9 May 2016 facilitated by the Chief Officer Audit & Risk. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration.
- 3.5 The outcome of the self-assessments was a high degree of performance against the good practice principles. Improvements implemented in full during the year were that the Committee formally obtained feedback on its performance from those interacting with the Committee, and the Committee received assurances that lessons learned are being shared across programmes and projects.
- 3.6 Further steps will be taken to consider the business of the Committee during 2016/17 to fully implement the following improvement actions previously identified to enhance and fully demonstrate the effectiveness of the Committee:
 - Monitor compliance and outcomes of the Committee's recommendation to apply Gateway Review to major projects;
 - Enhance the Committee's review of the effectiveness of performance management arrangements; and
 - Improve the Committee's scrutiny of arrangements for ensuring value for money.

4 IMPLICATIONS

4.1 Financial

There are no direct financial implications associated with this report.

4.2 Risk and Mitigations

- (a) The role of the Audit and Risk Committee includes the high level oversight of the effectiveness of the Council's systems of internal financial control, internal control and governance, including risk management.

- (b) There is a risk that the Audit and Risk Committee does not fully comply with best practice guidance thus limiting its effectiveness as a scrutiny body as a foundation for sound corporate governance. The completion of the annual self-assessment and identification and implementation of improvement actions as evidenced through this Annual Report will mitigate this risk.

4.3 Equalities

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

4.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

4.5 Carbon Management

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

4.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

4.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

5 CONSULTATION

5.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

5.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit & Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036

Background Papers:

Previous Minute Reference: Audit and Risk Committee 30 June 2015; Scottish Borders Council 27 August 2015

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**SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2015/16**

This annual report has been prepared to inform the Scottish Borders Council of the work carried out by the Council's Audit and Risk Committee during the financial year. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) to report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

Meetings

The Audit and Risk Committee has met 6 times during the financial year which included meetings on 11 May, 30 June, 28 September, 23 November 2015, 18 January and 29 March 2016 to consider reports pertinent to the audit cycle. In line with best practice the meetings include an Informal Session, without Management present, to enable the members of the Committee to meet privately and separately with the external auditors and with the Chief Officer Audit & Risk to raise any matters with the auditors pertinent to the annual audit cycle of reporting. During the year an improvement action was implemented to 'Develop a structured work programme of Informal Sessions of Audit and Risk Committee' which was effective to align with the audit cycle.

The remit of the Audit and Risk Committee is to have high level oversight of the Council's and the Pension Fund's framework of internal financial control, corporate governance, risk management systems and associated internal control environment. To fulfil this remit, it sought assurance on the adequacy and effectiveness of Council's and the Pension Fund's systems of corporate governance and internal control for efficient operations and for the highest standards of probity and public accountability. It did this through material it received from internal audit, external audit, other external scrutiny and inspection agencies, and assurances from Management. It focused entirely on matters of risk management, internal control and governance, giving specialist advice to the Council on the value of the audit process, on the integrity of financial reporting and on governance arrangements, and acted as a bridge between the Council and other stakeholders.

The Committee approved the terms of reference for Internal Audit (Internal Audit Charter) and the internal audit strategy and annual plan. It considered Internal Audit's executive summaries of reports findings, audit opinions, good practice and recommendations and monitored their implementation. It monitored Internal Audit's performance including progress against the audit plan and conformance with Public Sector Internal Audit Standards 2013 (PSIAS), and considered the Chief Officer Audit & Risk's annual report and assurance statement.

It also reviewed external audit strategies including arrangements for effective liaison between external and internal audit, considered external audit reports including the annual report to Members and the Controller of Audit on the annual audit of the Council and of the Pension Fund, reviewed the main issues arising from the external audit of the Council's statutory accounts and those of the Pension Fund, and monitored the implementation of agreed actions arising.

The Committee considered the effectiveness of the risk management process throughout the Council. It recommended the revised Corporate Risk Management Strategy for approval by the Council to facilitate implementation of the revised policy and procedures, and previously agreed improvement actions. It received presentations by Service Directors, using a scheduled call back programme, on the strategic risks facing the services and the internal controls and governance in place to manage those risks to demonstrate how risk management is embedded within services.

The Committee considered the adequacy and effectiveness of the Council's systems of internal financial control including counter fraud controls throughout the Council, and specifically received a report on the outcomes of the Counter Fraud Management Review. It endorsed the recommended improvements to refine the Council's approach to tackling fraud to ensure its on-going effectiveness and recommended the revised Counter Fraud Policy and updated Counter Fraud Strategy for approval by the Council.

The Audit and Risk Committee undertook the scrutiny role for the development of future Treasury Management strategy prior to its presentation to Council for approval. It also received progress reports on the extent of compliance with the approved treasury management strategy and an analysis of the performance against the targets set. During the year it recommended the Treasury Management strategy and performance monitoring reports for Council approval.

The minutes of Audit and Risk Committee meetings were presented for approval by the Council, and referred any exceptional items to the Council in accordance with the remit.

Membership

The Membership of the Audit and Risk Committee is part of the approved Scottish Borders Council's Scheme of Administration (updated 16 November 2015) namely "Nine members - being six Members of the Council and three non-voting members appointed from an external source. The Council Members shall comprise six Members not on the Executive Committee (4 from the Administration and 2 from the Opposition)". This structure complies with best practice on independence as evidenced through the use of the Checklist from the CIPFA Audit Committees Guidance for the assessment of the Audit and Risk Committee. The three (previously two) non-voting external members were appointed from the community following a recruitment and selection process carried out during autumn 2015. This enhances the robustness and independence of the Audit and Risk Committee's role in the scrutiny process of internal controls and governance.

The Committee membership during the year included Councillor M Ballantyne (Chair), Councillor W Archibald (until October 2015), Councillor J Campbell, Councillor I Gillespie (Appointed in October 2015), Councillor A Nicol, Councillor S Scott, Councillor W White, Mr D Gwyther (until October 2015), Mr G Tait (until May 2015), Mr P McGinley, Mr M Middlemiss and Mr H Walpole (latter three Appointed in November 2015).

The attendance by each member at the Committee meetings throughout the year was as follows:

Member	Meeting of 11 May 2015	Meeting of 30 June 2015	Meeting of 28 September 2015	Meeting of 23 November 2015	Meeting of 18 January 2016	Meeting of 29 March 2016
Cllr M Ballantyne (Chair)	Attended	Attended	Attended	Attended	Attended	Attended
Cllr W Archibald	Attended	Apologies	Apologies	n/a	n/a	n/a
Cllr J Campbell	Attended	Apologies	Attended	Attended	Apologies	Apologies
Cllr I Gillespie	n/a	n/a	n/a	Attended	Attended	Attended
Cllr A Nicol	Attended	Apologies	Attended	Attended	Apologies	Attended
Cllr S Scott	Attended	Attended	Attended	Attended	Attended	Apologies
Cllr W White	Attended	Attended	Attended	Attended	Attended	Attended
Mr D Gwyther	Apologies	Attended	Attended	n/a	n/a	n/a
Mr G Tait	Apologies	n/a	n/a	n/a	n/a	n/a
Mr P McGinley	n/a	n/a	n/a	Attended	Attended	Apologies
Mr M Middlemiss	n/a	n/a	n/a	Attended	Attended	Attended
Mr H Walpole	n/a	n/a	n/a	Attended	Apologies	Apologies

Every meeting of the Audit and Risk Committee in 2015/16 was quorate (i.e. at least three elected members present).

All other individuals who attended the meetings are recognised as being “in attendance” only. The Chief Financial Officer, the Chief Officer Audit & Risk, and external auditors attend all Committee meetings, and other senior officers also routinely attend Committee meetings. The Democratic Services section has provided support and resources to the Committee throughout the year including a Committee Officer as the minute secretary.

Skills and Knowledge

Given the wider corporate governance remit of Audit and Risk Committees within local government and the topics now covered by the external and internal audit functions, it is noteworthy that there is a range of skills, knowledge and experience that Audit and Risk Committee members bring to the committee, not limited to financial and business management. This enhances the quality of scrutiny and discussion of reports at the meetings. No one committee member would be expected to be expert in all areas.

Briefings and seminars have been delivered to help committee members keep up to date or extend their knowledge as part of the Informal Sessions or Committee business. On their appointment to the Committee, Councillor Gillespie, Mr McGinley, Mr Middlemiss and Mr Walpole received an Induction pack provided by the Chief Officer Audit & Risk covering Corporate Governance, roles of Internal and External Audit, role of Audit and Risk Committee, Assurance requirements, and Audit Cycle. All Audit and Risk Committee Members received the ‘Knowledge and Skills Framework’ within CIPFA Audit Committees Guidance for use as a self-assessment tool in identifying their needs to enhance their knowledge, as appropriate.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit and Risk Committee on 9 May 2016 during an Informal Session facilitated by the Chief Officer Audit & Risk using the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance. This was useful for Members to ensure the Committee can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance.

The outcome of the self-assessments was a high degree of performance against the good practice principles. Improvements implemented in full during the year were that the Committee formally obtained feedback on its performance from those interacting with the Committee, and the Committee received assurances that lessons learned are being shared across programmes and projects. To enhance and fully demonstrate the effectiveness of the Committee further steps will be taken to fully implement the following improvement actions previously identified:

- Monitor compliance and outcomes of the Committee’s recommendation to apply Gateway Review to major projects;
- Enhance the Committee’s review of the effectiveness of performance management arrangements; and
- Improve the Committee’s scrutiny of arrangements for ensuring value for money.

Assurance Statement to the Council

The Audit and Risk Committee provides the following assurance to the Council:

- The Council has received the minutes of the Audit and Risk Committee throughout the year.
- The Audit and Risk Committee has operated in accordance with its agreed terms of reference, and accordingly the Audit and Risk Committee principles in CIPFA Position Statement.
- The Audit and Risk Committee has approved the Internal Audit charter and strategy, and received the internal and external assessments against Public Sector Internal Audit Standards (PSIAS) and quality improvement plan (QAIP), particularly to confirm Internal Audit’s organisational independence. The Committee has received and considered material arising from individual Internal Audit assignments in the form of executive summaries of Internal

Audit reports and has received the Internal Audit Annual Report 2015/16 from the Chief Officer Audit & Risk at its 9 May 2016 meeting, whose approved plan of internal audit work covers all strands of governance, namely financial, staff and other resources. The Chief Officer Audit & Risk commented positively on the Council's governance framework and, based on the Internal Audit work completed, provided an independent and objective opinion on the adequacy and effectiveness of internal controls that have been in place during the year and highlighted areas for improvement.

- The Audit and Risk Committee has received and considered all material arising from the External Audit strategies and plans overview for Scottish Borders Council and for Scottish Borders Pension Fund from the External Auditor, KPMG.
- For all audit reports, the Audit and Risk Committee is satisfied that an adequate Management response is in place to ensure action will be taken to address identified areas of improvement. The Committee acknowledges that all the audit recommendations are input to Covalent, the Council's performance management system, and that there is a system of on-going follow-up by Internal Audit in place to monitor implementation. However at its meeting on 9 May 2016 it raised concerns that audit actions outstanding from previous years were not being implemented in a timely manner by Management, which requires to be addressed.
- The Audit and Risk Committee has received Risk Management presentations by various Service Directors representing the diverse range of Council services to fulfil its oversight role on the management of risks across the Council, and to hold Management to account on the application of the revised Corporate Risk Management Policy. At its meeting on 28 June 2016 it will monitor the implementation of the recommended improvements, which it endorsed, to refresh the risk management arrangements of the Council to ensure their on-going effectiveness.
- The Audit and Risk Committee at its meeting on 28 June 2016 will monitor the implementation of the recommended improvements, which it endorsed, to refine the Council's approach to tackling fraud to ensure its on-going effectiveness.
- The Audit and Risk Committee has received and considered material to fulfil its scrutiny role on treasury management activity.
- The Audit and Risk Committee has reviewed the draft Annual Governance Statement 2015/16 at its meeting on 9 May 2016, in order to assess whether the content is consistent with its evaluation of the internal control environment and governance arrangements based on evidence received during the year. The Audit and Risk Committee will continue to monitor progress with implementation of the improvement actions identified by Management as outlined in the Annual Governance Statement 2015/16.
- The Audit and Risk Committee will review the Annual Accounts 2015/16 in draft of the Council and of the Pension Fund at its meeting on 28 June 2016 and will review these in final at its meeting on 26 September 2016 alongside External Audit reports on their annual audits 2015/16 in order to decide whether to recommend to the Council that they be adopted.
- The Audit and Risk Committee has reflected on its performance, identified improvements in respect of its scrutiny and challenge role, and agreed the steps to be taken to enhance its effectiveness going forward.

Recommendation of the Terms of Reference for the Audit and Risk Committee for the coming year

There are no proposals to change the Terms of Reference for the Committee at this time.

Councillor Michelle Ballantyne
Chairman of Audit and Risk Committee
June 2016

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 9 May 2016

Audit committee purpose and governance	Yes/Partly /No	Comments
Does the authority have a dedicated audit committee?	Yes	Scheme of Administration approved by the Council 1 January 2015 (amended 16 November 2015) includes the remit of the Audit and Risk Committee.
Does the audit committee report directly to full council?	Yes	Council approves Minute of each Audit and Risk Committee meeting.
Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement	Yes	Review has been completed by Chief Officer Audit & Risk against CIPFA 'audit committees' Practical Guidance for Local Authorities and Police 2013 (CIPFA guidance 2013 'audit committees').
Is the role and purpose of the audit committee understood and accepted across the authority?	Yes	Scheme of Administration is published on the shared X:drive. References to Audit and Risk Committee role and reports are made to Senior Officers at Management Team meetings on a regular basis and to Corporate Management Team in advance of each Audit and Risk Committee meeting by Chief Officer Audit & Risk.
Does the audit committee provide support to the authority in meeting the requirements of good governance?	Yes	The Audit and Risk Committee is a key part of the Council's governance framework as outlined in the SBC Local Code of Corporate Governance approved by the Council 19 May 2016. The Audit and Risk Committee Annual Report is presented to and approved by the Council in August each year. SBC continues to be a lead authority in adopting this best practice. As part of its annual self-assessment 2015/16 the Audit and Risk Committee has identified improvements in respect of its scrutiny and challenge role and how it can add further value.
Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	The Audit and Risk Committee annually reviews its terms of reference as part of it carrying out an annual self assessment of performance against best practice checklists. The Audit and Risk Committee Annual Report is presented to the Council in August each year. It sets out the activities to enable stakeholders to understand how the Audit and Risk Committee has discharged its duties and identifies areas of improvement to fulfil its remit. SBC continues to be a lead authority in adopting this best practice.

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 9 May 2016

Functions of the committee	Yes/Partly/No	Comments
Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?		
• good governance	Yes	Included in remit nos. 1, 3, 10 & 11
• assurance framework	Yes	Included in all aspects of remit
• internal audit	Yes	Included in remit nos. 5, 6 & 7
• external audit	Yes	Included in remit nos. 8 & 9
• financial reporting	Yes	Included in remit nos. 4 & 12
• risk management	Yes	Included in remit no. 2
• Value for money or best value	Yes	Included in remit nos. 3 & 11 (implicit in 11 e.g. assurance of effective and efficient operations)
• Counter-fraud or corruption	Yes	Included in remit nos. 1 & 11

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 9 May 2016

Functions of the committee (cont’d)	Yes/Partly /No	Comments
Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	The Audit and Risk Committee annually reviews its terms of reference as part of it carrying out an annual self assessment of performance against best practice checklists.
Has the audit committee considered the wider areas identified in CIPFA’s Position Statement and whether it would be appropriate for the committee to undertake them?	Yes	The Audit and Risk Committee reviews and monitors treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice (remit no. 10).
Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	The Assurance Framework and the Audit Cycle that define the programme of work for the Audit and Risk Committee are included in the Induction training pack along with Essential Questions for the Committee members to ask those charged with governance when considering the relevant reports as part of the Audit Cycle (under the three topics of Internal Control, Risk Management, and Governance).
Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes	As reflected in Scheme of Administration through its membership and functions referred.

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 9 May 2016**Membership and support**

	Yes/Partly /No	Comments
Has an effective audit committee structure and composition of the committee been selected?	Yes	The membership of the Audit and Risk Committee comprises six elected members not on the Executive Committee (4 from the Administration and 2 from the Opposition) and three non-voting independent members appointed from an external source. The latter helps to enhance the robustness and independence of the Audit and Risk Committee's operations.
This should include: <ul style="list-style-type: none"> • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • where independent members are used, that they have been appointed using an appropriate process. 		There is an open recruitment and selection process to appoint external members of the Audit and Risk Committee outwith the cycle of local elections to facilitate continuity management of membership (Selection Committee; appointment for 3 years to October 2018).
Does the chair of the committee have appropriate knowledge and skills?	Yes	Further to members' training, the chair of the Audit and Risk Committee meets regularly with the Chief Officer Audit & Risk including pre-meetings.
Are there arrangements in place to support the committee with briefings and training?	Yes	There is a standard Audit and Risk Committee induction programme including outline of Corporate Governance, role of Audit and Risk Committee, role of internal and external Audit, Assurance, and Audit Cycle. Informal Sessions involving internal and external audit usually prior to each Audit and Risk Committee meeting are used for the purpose of briefing and training to coincide with Audit Cycle.
Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Yes	A formal assessment against the Knowledge and Skills Framework was carried out 19 January 2015 with conclusion of improving and satisfactory skills and knowledge. Induction materials were distributed for new members (one elected member and three external members) in November 2015 to complement their personal knowledge and experience relating to the financial and operational management and internal control of large organisations.
Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	Members, in particular the chair of the Audit and Risk Committee, utilise opportunities as required to keep in touch on a continuing basis with the key people involved in the Council's governance e.g. the Leader of the Council, the Chief Executive, the Chief Financial Officer, the External Auditor and the Chief Officer Audit & Risk.
Is adequate secretariat and administrative support to the committee provided?	Yes	A Committee Officer is assigned to the Audit and Risk Committee. There are six scheduled meetings of the committee each year – January, March, April/May, June, September and November – to coincide with Audit Cycle. Additional meetings can be arranged as required.

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 9 May 2016

Effectiveness of the committee	Yes/Partly/No	Comments
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Yes	<p>During the year the Audit and Risk Committee formally obtained feedback on its performance from a range of Service Directors who interacted with the committee on a periodic basis.</p> <p>The Audit and Risk Committee took part as a focus group within an Audit Scotland national study on Treasury Management whose findings are included in the report ‘Borrowing and treasury management in Councils’ published in March 2015.</p> <p>The Audit and Risk Committee Annual Report is presented to the Council in August each year. It sets out the activities to enable stakeholders to understand how the committee has discharged its duties and identifies areas of improvement to fulfil its remit. SBC continues to be a lead authority in adopting this best practice.</p>
Has the committee evaluated whether and how it is adding value to the organisation?	Yes	<p>The Audit and Risk Committee carries out an annual self assessment of performance against best practice checklists. On 9 May 2016 as part of the Informal Session prior to the meeting it evaluated “Areas where the Audit Committee can add value by supporting improvement” using the toolkit ‘Evaluating the Effectiveness of the Audit Committee’ from the CIPFA guidance 2013 ‘audit committees’. Progress on implementation of previously identified areas of improvement was evaluated.</p> <p>The Audit and Risk Committee Annual Report is presented to the Council in August each year. It sets out the activities to enable stakeholders to understand how the audit committee has discharged its duties and identifies areas of improvement to fulfil its remit. SBC continues to be a lead authority in adopting this best practice. As part of its annual self-assessment 2015/16 the Audit and Risk Committee has confirmed improvements in respect of its scrutiny and challenge role and to further add value.</p>
Does the committee have an action plan to improve any areas of weakness?	Yes	<p>The Audit and Risk Committee Annual Report which is presented to the Council in August each year identifies areas of improvement to fulfil its remit and to further add value.</p>

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Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
Promoting the principles of good governance and their application to decision making	Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it. Working with key members/governors to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	Committee scrutinised the AGS including assurances and the improvement actions. References to Committee role are made to Corporate Management Team (CMT) in relevant reports in advance of each meeting. Committee Chair meets with Chief Executive / Chief Financial Officer on a regular basis. Committee supports the role of audit. Chair to meet NHS Borders Audit Committee Chair re Health & Social Care Integration.	4 (2014/15 3)
Contributing to the development of an effective control environment.	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	Committee received periodic progress reports from auditors e.g. follow-up activity. Senior managers attended Committee to discuss risks and actions and to provide details of progress.	4 (4)
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking. Monitoring improvements. Holding risk owners to account for major/strategic risks.	Committee endorsed the identified actions from Corporate Risk Review and approved revised Risk Management Policy and Strategy. Committee received presentations by various Service Directors on their key risks and mitigations to hold Management to account.	4 (3)
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.	Annual Strategies and Plans and periodic progress Reports received from auditors, and from other external audit and inspection agencies e.g. Local Scrutiny Plan. Induction programme outlines Governance and Assurance Framework and Audit Cycle.	4 (3)

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.	Committee approved the Internal Audit charter and strategy, and received assessment against Public Sector Internal Audit Standards (PSIAS) and quality improvement plan (QAIP).	4 (4)
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	Auditors provided assurance on change and performance management, including lessons learned and sharing best practice. Committee recommended applying Gateway Review in 2015, though needs to continue to monitor compliance and outcomes.	3 (2)
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	Auditors provided assurance on value for money arrangements indirectly on change and performance management. AGS sets out governance framework extract from Local Code including best value.	3 (2)
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.	Committee endorsed the identified actions from Counter Fraud Review and approved revised Counter Fraud Policy and Strategy. Auditors provided assurance on fraud risks and counter fraud controls.	4 (3-4)
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging transparency.	Committee scrutinises annual accounts and reports prior to publication and audit, and comments on the format/content for users. Committee received reports from auditors covering governance of ALEOs and Health & Social Care Integration.	4 (3)

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

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Financial Reporting & Scrutiny: Why the Accounts Matter



Prepared for Local Government
February 2016

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

Financial Reporting & Scrutiny: Why the Accounts Matter

The role of financial reporting

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

Your role in the accounts process

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

Developments in financial reporting in 2014/15

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

¹ The Local Authority Accounts (Scotland) Regulations 2014

Appendix 1

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

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

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

DRAFT ANNUAL REPORT AND ACCOUNTS 2015/16

Report by Chief Financial Officer

AUDIT AND RISK COMMITTEE

28 June 2016

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Risk Committee with an opportunity to scrutinise the draft Scottish Borders Council Annual Report and Accounts for the year ended 31 March 2016 prior to its submission to the External Auditors.**
- 1.2 The draft Report and Accounts are still subject to Statutory Audit, which will commence early July. Following the Audit process, the final Report and Accounts will be submitted to Council.

2 STATUS OF REPORT

- 2.1 This report is presented to enable members to consider the draft Annual Report and Accounts (the Annual Report) attached at Appendix 1 prior to External Audit Inspection by the statutory deadline of 30 June 2016.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Risk Committee:**
 - (a) **Notes the Draft Annual Report and Accounts 2015/16 for Scottish Borders Council and associated Group Accounts; and**
 - (b) **Supports its submission for review by the External Auditors.**

4 BACKGROUND

- 4.1 The Council's Annual Accounts summarises the financial transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practice. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code Of Practice 2015/16 supported by International Financial Reporting Standards (IFRS).

5 ANNUAL REPORT AND ACCOUNTS 2015/16

- 5.1 The draft Annual Report and Accounts for 2015/16 (the Annual Report) is attached at Appendix 1. The Annual Report will be submitted to the External Auditors, KPMG for full audit by 30 June 2016.
- 5.2 The Annual Report will also be made available for public inspection for a 3 week period commencing 30 June 2016.
- 5.3 It should be noted that the Annual Report remains draft and the conclusion of the year end work including the external audit may result in changes.
- 5.4 The Committee will receive a copy of the final report at the end of the statutory external audit process to agree prior to its publication.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this proposal.

6.2 Risk and Mitigations

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

6.3 Equalities

It is anticipated that there are no adverse equality implications.

6.4 Acting Sustainably

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

6.5 Carbon Management

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

6.6 Rural Proofing

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

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

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

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference:

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

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

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Appendix 1

Scottish Borders Council

unaudited annual accounts

for the year to 31 March 2016



Scottish Borders Council

Annual Accounts 2015/16

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Foreword by the Leader of the Council

Welcome to the Annual Accounts for the Scottish Borders Council for the year ended 31 March 2016. 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 2015/16.

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

- what we do as a Council;
- what our strategy and priorities are;
- how we are organised to deliver priorities;
- our financial position for 2015/16;
- key aspects of our performance during 2015/16; and
- our plans for the future.

Highlights of 2015/16

Against a very difficult financial background, the Council has achieved a great deal during 2015/16 and I am proud, along with all of our Elected Members and Officers, to have:

- ✓ Supported the opening of the Borders Railway in September 2015 which presents significant opportunities to create long term economic and social benefits for the Scottish Borders
- ✓ Achieved 85% of planned efficiency savings on a permanent recurring basis
- ✓ Delivered £260.2m of revenue spending within budget
- ✓ Delivered Capital Investment of £45m in schools, flood protection, roads, lighting and other assets
- ✓ Secured a successful first year of operation with Bridge Homes LLP with 23 new homes delivered
- ✓ Secured a successful first year of operation with SBCares LLP delivering business plan objectives
- ✓ Signed a major contract to transform our IT services with our new IT partner CGI

Our Plans for 2016/17

The next year presents many opportunities for the Council including:

- the first year of the Integration Joint Board with NHS Borders for Adult Health & Social Care Services
- the launch of the new integrated Sport and Culture Trust (Live Borders)
- redesign of the Council's IT service with CGI during 2016/17 which will include the provision of a new Enterprise Resource Planning (ERP) solution to replace current Finance and HR systems

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

2016/17 represents the 4th year of the original 5 year revenue Financial Plan established in 2013/14. During this period from 2013/14 to 2015/16 the Plan delivered cumulative savings of £28.608m alongside significant improvements in performance set out on pages 17-21.

Acknowledgements

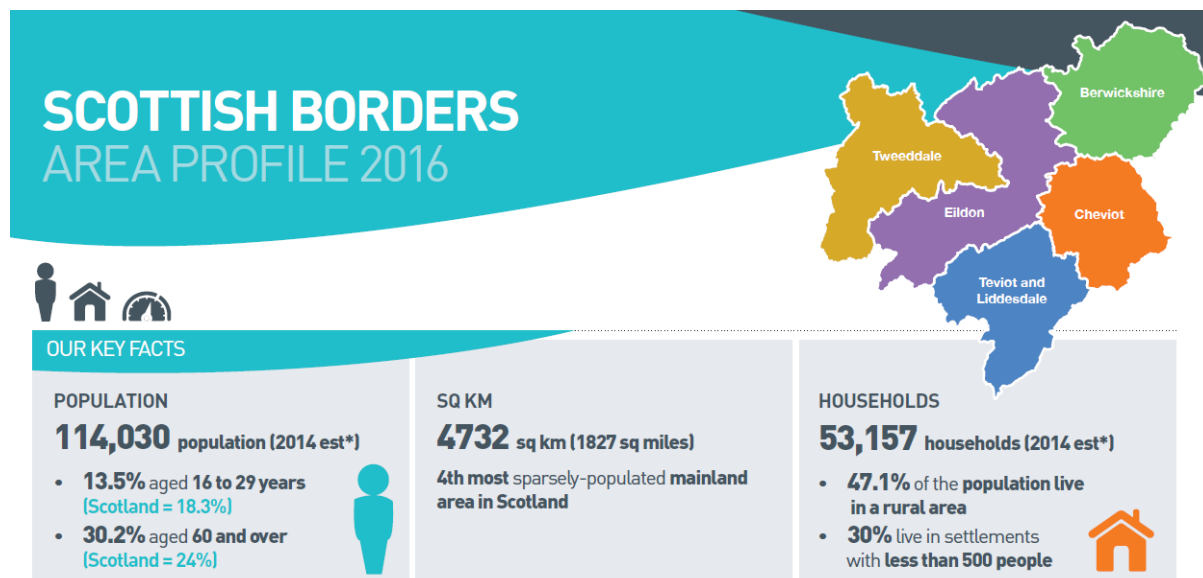
I would like to thank all Officers involved across the Council for their hard work during the year to transform the Council to ensure the continued sound management of the Council's finances and the production of the statutory accounts.

Councillor David Parker

**Leader
Scottish Borders Council**

Management Commentary

Who are we and what do we do?



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

Area Overview

The Scottish Borders area is 473,614 hectares (1,827 square miles) and is located in the South East of Scotland. It has Edinburgh and the Lothians to the North, Northumberland to the South and Dumfries and Galloway to the West.

Scottish Borders is a rural local authority where 30% of the population lives in settlements of under 500 people or in isolated hamlets. The largest town is Hawick with a 2014 estimated population of 14,003, followed by Galashiels with 12,670 – although, if neighbouring Tweedbank were included, Galashiels would be the largest town in Scottish Borders. The only other towns with a population of over 5,000 people are Peebles, Kelso and Selkirk. Scottish Borders Council Area is the fourth most sparsely-populated mainland Local Authority areas in Scotland after Highland, Argyll and Bute and Dumfries and Galloway.

Population

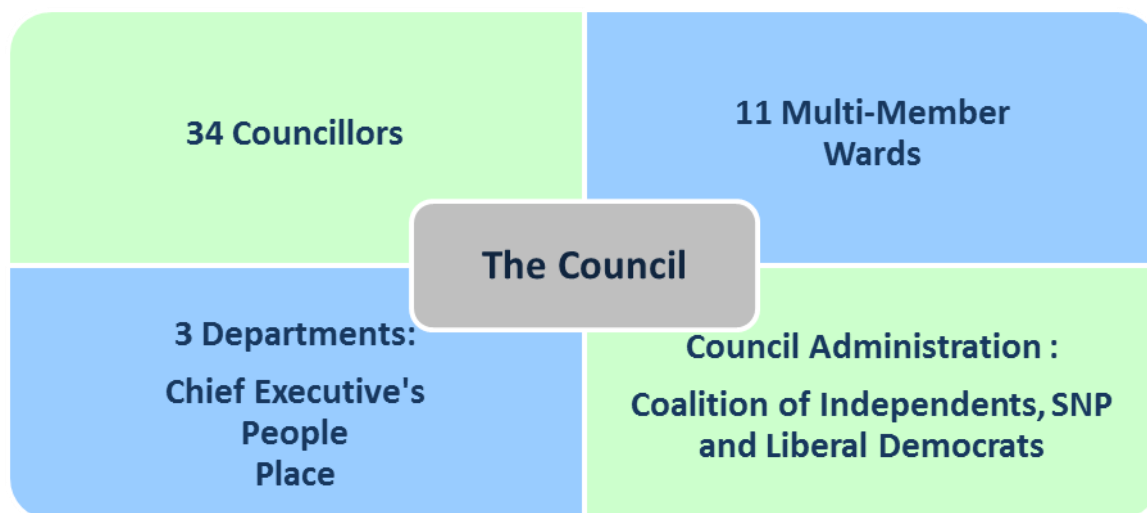
The estimated 2014 population for Scottish Borders was 114,030: an increase of 0.1% from 113,870 in 2013. The population of Scottish Borders accounts for 2.1% of the total population of Scotland. Since 1988, Scottish Borders's total population has risen overall. Scotland's population has also risen over this period.

In Scottish Borders, 13.5% of the population are aged 16 to 29 years. This is smaller than Scotland, where 18.3% are aged 16 to 29 years. Persons aged 60 and over make up 30.2% of Scottish Borders. This is larger than Scotland where 24.0% are aged 60 and over.

The overall population of Scotland is expected to increase by 8.8% between 2012 and 2037 but the overall population of Scottish Borders is not expected to change significantly in the same period. However, the constitution of the population by banded age group is expected to change significantly, with a drop in the proportions of children and working-age people and an increase in the proportion of pensioners. These changes are expected to be more marked in Scottish Borders than in Scotland as a whole. In particular, proportions of the 75+ age group in Scottish Borders are projected to increase by almost 100%, which is even higher than the projected Scottish increase.

Management Commentary

Scottish Borders Council

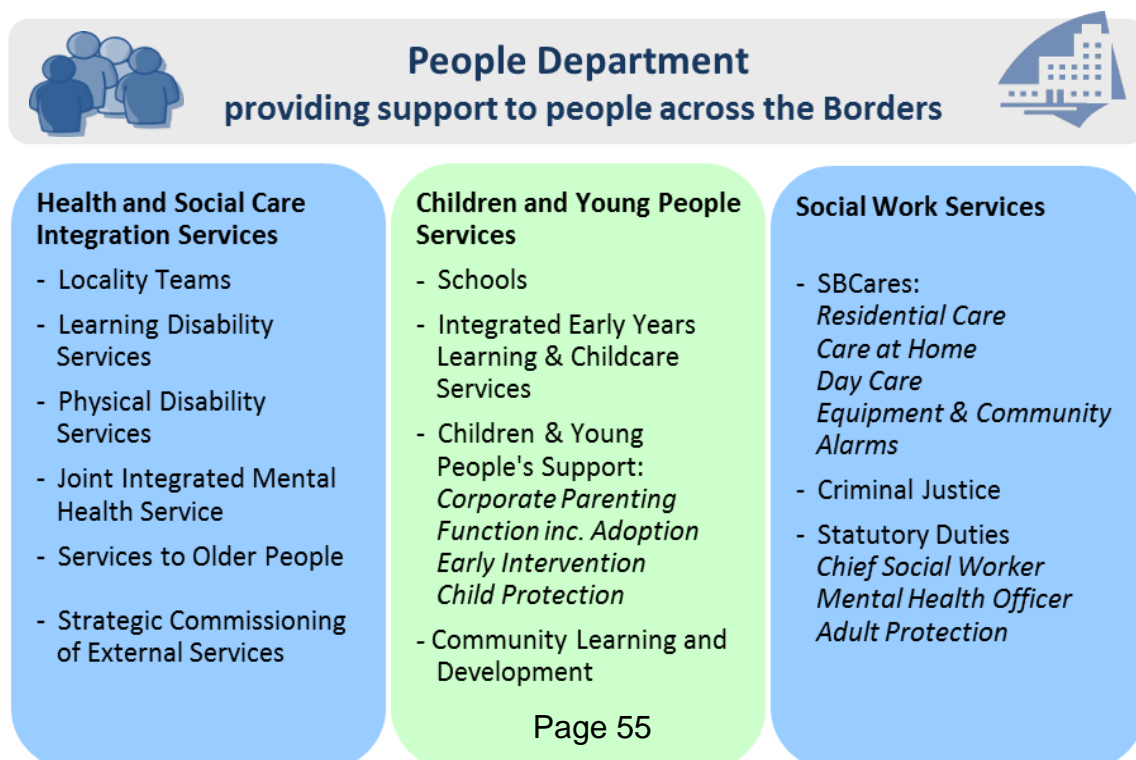


The Scheme of Administration sets out the operation of the Council. The Council's decision making is delivered through a Committee structure based on an Executive Committee and Scrutiny model.

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

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
- Cleaning & Catering
- School Crossing Patrols

Capital Project Services

- Design and Delivery of Infrastructure Projects

Chief Executive's 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
- Pensions & Investments

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 Corporate Plan was reviewed in October 2015, with SBC re-stating its commitment to the 8 priorities, the Plan will be reviewed again in 2018. The Corporate Plan can be found at www.scotborders.gov.uk/corporateplan. The annual business planning process ensures that all services align their work to the achievement of the 8 priorities. The 2016/17 Business Plans of our individual service areas and the work we do with partners which 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.

Management Commentary

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



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 Performance Management Framework was reviewed alongside the Corporate Plan in October 2015, the Framework will also be reviewed again in 2018.

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.

Equalities Mainstreaming

Scottish Borders Council takes a positive approach to equalities and human rights through taking forward the actions in its Mainstreaming Equalities Report and Equalities Outcomes Report 2013 -17. This is being implemented by:

- providing effective support to embedding equalities and human rights into the Council's corporate, business planning, policy and performance processes;
- giving advice and support on equalities and human rights to the Scottish Borders Community Planning Partnership;
- providing operational support to Council services on equalities and human rights matters;
- promoting equalities, diversity and human rights;
- engaging with local equality and human rights groups; and
- ensuring all of the Council's budget proposals are equality impact assessed.

Management Commentary

How are we are doing? - Financial Performance

Budget and Financial Strategy 2015/16

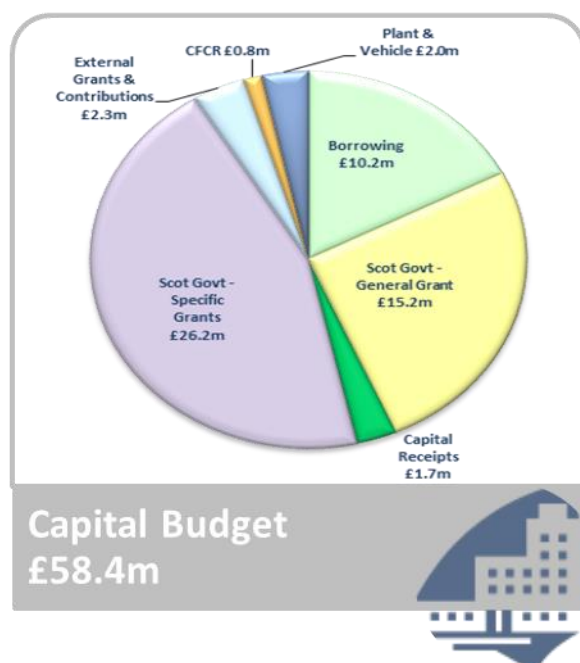
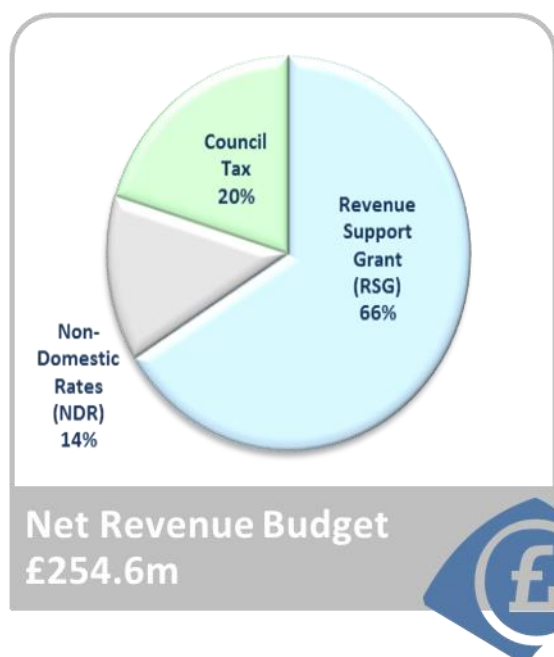
The budget for 2015/16 was approved by the Council on the 12th February 2015 and this included the Financial Strategy. The economic outlook had a direct bearing on public expenditure with the need for tight fiscal constraint to be maintained for the foreseeable future. The Council's aim was to provide the best possible services within the resources available and this is the basis on which the Financial Strategy for 2015/16 was approved.

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

- a **freeze on council tax** in each year of the budget has been reflected pending a longer term national review of Local Government funding through the Council Tax Commission which may result in changes to Local Government finance during the 5 year period;
- set a **prudent, sustainable budget** in line with available resources;
- continue to **invest in infrastructure** through a sustainable capital programme financed by £20.71m loans charges in 2015/16;
- **maximise income** while keeping fees charged to service users at an affordable level;
- continue to **invest in corporate transformation and efficiency projects** to deliver long term financial savings and service benefits;
- focus on **preventative revenue and capital spend**; and,
- **maintain unallocated reserves of £6.756m** for 2015/16 in line with the assessed risk register in appendix 1.

2015/16 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

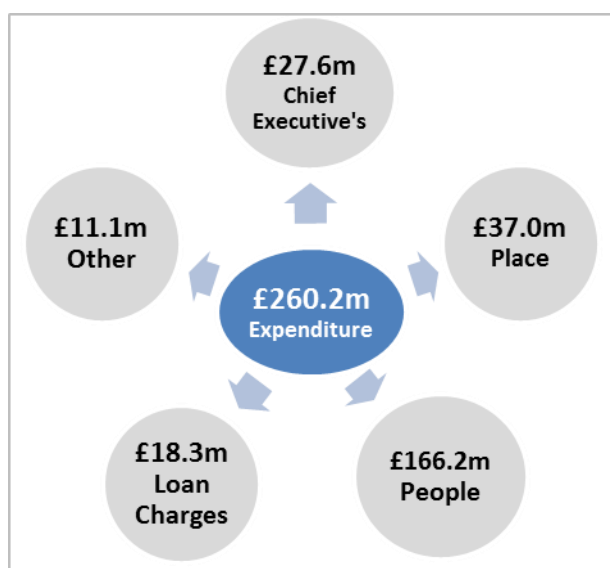
Financial Position at 31 March 2016

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 7 June 2016.

Revenue

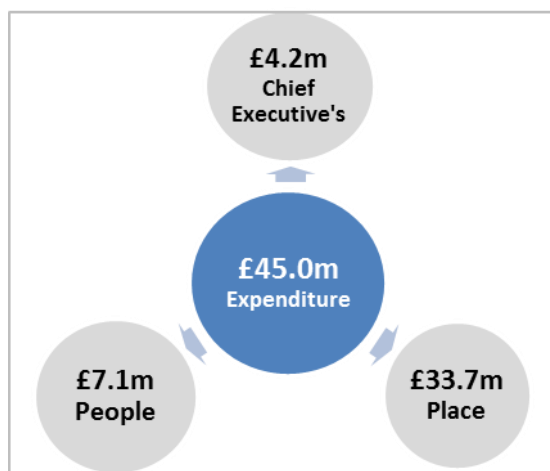
The actual outturn for the financial year 2015/16, including funding sources, was a revenue expenditure of £260.2m representing a net under spend of £1.284m (0.49%) against the revised budget.

The following chart analyses the revenue by Council department:



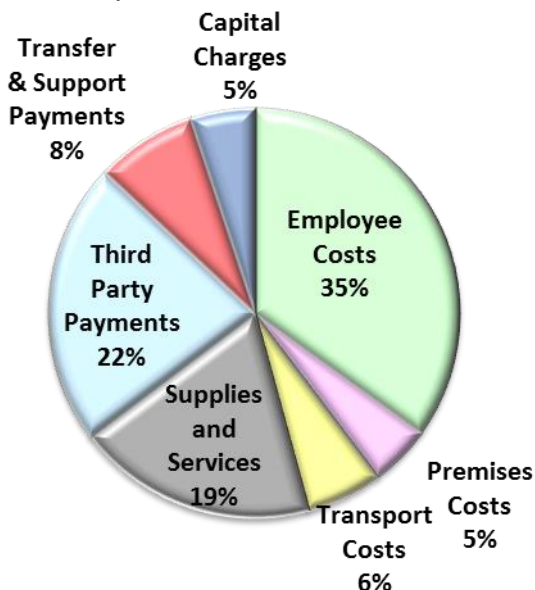
Capital

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



The capital programme delivered significant investment in the Scottish Borders during 2015/16 and the following table highlights some of the major projects undertaken:

Revenue net expenditure for the year includes income of £136.1m, and gross expenditure of £396.3m as analysed in the chart below:



Place	
• Galashiels Transport Interchange	£1.6m
• Roads & Bridge Maintenance	£5.1m
• Lighting inc. Energy Saving	£1.6m
• Flood Protection Schemes	£17.9m
• Waste Infrastructure	£1.3m

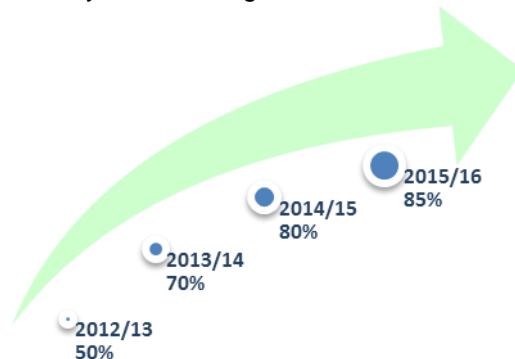
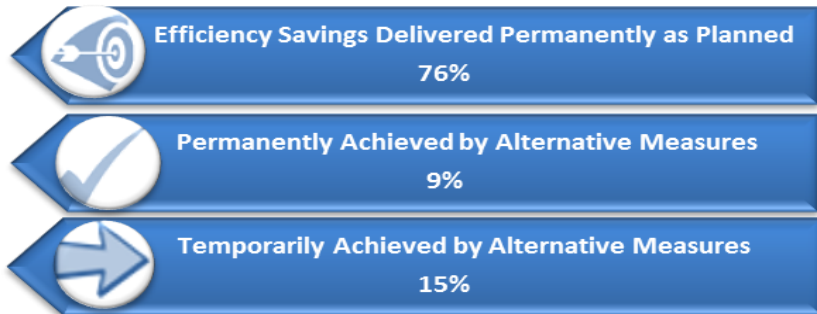
People	
• Duns Primary School	£1.9m
• Kelso High School	£0.5m
• New Primary Schools	£1.1m
• Early Years Programme	£1.1m
• Complex Needs Centre	£0.3m
• Social Care Projects	£0.4m

Chief Executive's	
• Wilton Lodge Park	£0.4m
• Great Tapestry of Scotland Building	£0.4m
• 2G and 3G pitches	£0.8m
• Economic & Regeneration Infrastructure	£1.1m

Management Commentary

Delivery of Targeted Savings

Overall, savings of £7.8m were delivered during 2015/16 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 delivery of the savings is as follows:



% of Savings Achieved Permanently

Overall, savings of £7.825m were delivered during 2015/16. Of these, £6.620m (85%) were delivered permanently (£5.924m (76%) as intended within the Financial Plan and £0.696m (9%) by alternative means). There is also a demonstrable sustained improvement overall in the delivery of agreed savings by the Council over the past 4 years. This is supported by 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 2016/17 and beyond.

Departmental Commentary

Financial Review of 2015/16

- ✓ Permanently delivered £4.1m (89%) of required efficiency savings
- ✓ Actions delivered to significantly reduce impact of demand pressures on Adult Services and Integrated Children Services budgets
- ✓ Provision of 600 hours entitlement for 3 & 4 year olds and eligible 2 year olds rolled out

- Significant in year pressures, caused by:
- Demand for children's out of area placements (£1.3m)
 - Pressures in Older Peoples Services for both home and residential care

Financial Outlook for 2016/17



People

Base budget for 2016/17
£171.1m

Additional Resources added include:

- ▲ Out of Authority Placements £0.5m
- ▲ Health & Social Care Integration £5.3m
- ▲ Older People Demographic £0.2m
- ▲ Adults with Learning & Physical Disabilities £0.5m

Potential Risks & Challenges for 2016/17:


- ↳ Delivering the Children & Young People Transformation programme with savings of £4m
- ↳ Maintaining our teacher number commitment to the Scottish Government
- ↳ Delivering effective Health and Social Care Integration

Closed 2015/16 with an underspend of £0.4m (0.24%) against the revised budget of £166.6m

Management Commentary

Financial Review of 2015/16

Financial Outlook for 2016/17

<p>✓ Permanently delivered £1.32m (75%) of required efficiency savings</p> <p>✓ Final out-turn influenced by reduced food costs, restrictions on discretionary spending and increased income from internal and external sources</p>		<h3>Place</h3>	<p>Base budget for 2016/17 £40.3m</p>
<p>➤ Significant pressures in year (£1m) due to:</p> <ul style="list-style-type: none"> • Neighbourhood Services (£0.39m) mainly due to materials and external services costs • Responding to flood damage which it is assumed will be met through a Bellwin claim * <p><small>*Bellwin Scheme is an emergency fund provided by Government</small></p>			<p><i>Additional Resources added include:</i></p> <ul style="list-style-type: none"> ▲ Reduced SBc Contracts Surplus £0.1m ▲ Increased Roads budget £0.5m ▲ Increased budget for Gala TI £0.1m
<p>➤ Significant pressures in year (£1m) due to:</p> <ul style="list-style-type: none"> • Neighbourhood Services (£0.39m) mainly due to materials and external services costs • Responding to flood damage which it is assumed will be met through a Bellwin claim * <p><small>*Bellwin Scheme is an emergency fund provided by Government</small></p>		<p>Potential Risks & Challenges for 2016/17:</p> <ul style="list-style-type: none"> ↳ Delivery of a new Roads operating model ↳ Achieving Planning Fee Income Target ↳ Restructuring and costs savings targets with the Regulatory Services directorate. ↳ Influence of external factors such as weather and fuel costs 	

Closed 2015/16 with an underspend of £1m (2.6%) against the revised budget of £38m

Financial Review of 2015/16

Financial Outlook for 2016/17

<p>✓ Permanently delivered £1.2m (84%) of required efficiency savings</p> <p>✓ £0.287m of railway investment during the year</p>	<h3>Chief Executive's</h3>		<p>Base Budget for 2016/17 £23.0m</p>
<p>➤ Pressures in year within the SWAN project due to increased costs relating to delayed transition of sites have been met from elsewhere within Chief Executive's department</p>			<p>- £0.122m of non inflation additional resources were added across the department</p> <p>- £1.9m identified within existing resources to support the Corporate Transformation Programme</p> <p>Potential Risks & Challenges for 2016/17:</p> <ul style="list-style-type: none"> ↳ Supporting Live Borders to deliver significant savings targets ↳ Delivering the back office savings at the same time as increase support demand for corporate transformation agenda ↳ Preparation for the Implementation of new financial system

Closed 2015/16 with a small underspend of £0.07m (0.25%) against the revised budget of £27.7m

Management Commentary

Other Non-Departmental Expenditure including Loan Charges

The “Other” budget includes Corporate 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.

During 2014/15 and 2015/16, 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. The Council took a decision during 2015/16 to deploy the Treasury Management Earmarked Reserve to part fund the investment in IT required to deliver future transformational change and resulting long term financial benefits for the Council.

OTHER: Closed 2015/16 with a small underspend of £0.07m (0.6%) of the revised budget of £10.9m

LOANS CHARGES: Closed 2015/16 with a small underspend of £0.015m (0.08%) of the revised budget of £18.2m

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 2015/16 (the Code).

These accounting adjustments include depreciation, Loans Fund principal repayments and accrued holiday leave not taken by 31 March 2016. This results in the (statutory accounting) adjusted net cost of services of £264.9m compared with the reported departmental net cost of services of £260.2m. Note 5, page 60 provides additional analysis of the movement between these figures.

Further statutory adjustments are then subsequently made in the comprehensive income and expenditure account shown on page 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 Council Services for the year of £4.79m.

Other Comprehensive Income and Expenditure

Following the Actuarial Gains on the Pension Net Assets/Liabilities (£35.7m) the overall Net Comprehensive Income is a surplus of £48.5m (versus £44.9m in 2014/15). 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 0.2% during 2015/16. 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

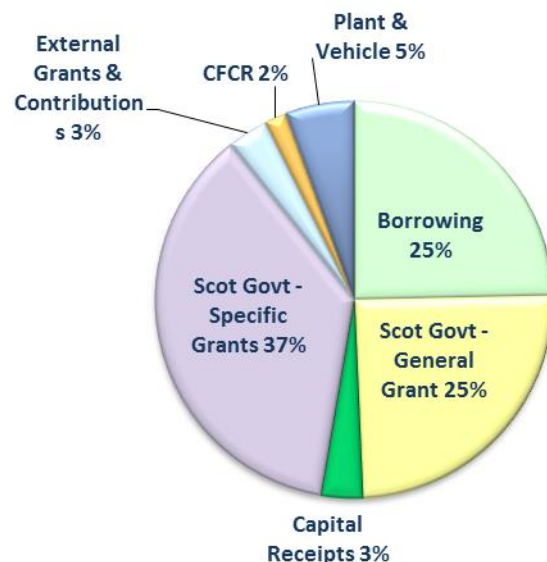
Capital Financing Requirement

In addition to the capital expenditure on fixed and intangible assets of £45.0m the Council utilised the Scottish Government's Consent to Borrow provision to provide the funding for capital expenditure on new affordable housing through the Council National Housing Trust Initiative via Bridge Homes LLP (£1m).

Actual Capital Financing 2015/16

This chart shows the profile of the sources of the total £45.0m capital financing requirement for 2015/16.

The chart indicates that 25% (£11.4m) of the capital financing requirement was provided by the Council's capital prudential borrowing.



Treasury and Debt Management

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

Cash Management

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

Debt Management

The Council continued to maintain an under-borrowed position, this means that the capital financing need was not fully funded by external loan debt and instead internal cash supporting the Council's reserves, balances and cash flow has continued to be used as a temporary tactical measure. This strategy remains both prudent and cost effective in an environment where investment returns are low and counterparty risk is high. 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 2016 was £175m, no additional loans being undertaken during the year. The average rate of interest paid on outstanding external debt was 6.5%.

Management Commentary

Reserves

The Council maintains two types of reserves – usable and unusable – and the movement in these reserves are set out in the Movement in Reserves Statement (page 40).

Unusable Reserves – result from accounting adjustments and cannot be spent

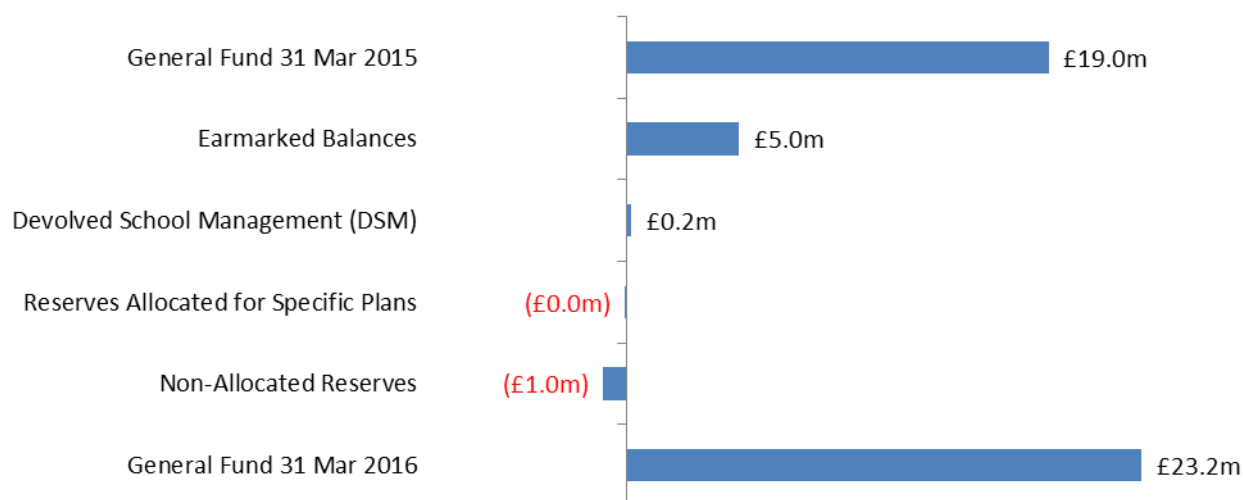
Usable Reserves – result from the Council’s activities and can be spent in the future

Note 31, page 89 provides additional information on the status of the usable and unusable reserves held by the Council.

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

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

As at 31 March 2016 the total General Fund Reserve Balance is £23.2m (£19.0m at 31 March 2015) an increase of £4.3m during the year. The increase, as can be seen from the chart below, can mainly be attributed to the change in the non-allocated reserves and the increase in earmarked balances.



Within the detail of the movements there are the following key changes during 2015/16:

Non-Allocated Reserves

Funding of service pressures (including pay award pressure of £0.7m)	(£1.1m)
Council contribution to Bellwin Scheme	(£0.5m)
Establishment of ER/VS and IT transformation reserve	(£1.1m)
Offset by an increase to the balance from the 2015/16 revenue underspend	£1.3m

Earmarked Balances including

Support for the IT transformation programme	£1.5m
Service earmarking for specific purposes	£3.5m

Reserves Allocated for Specific Plans

Support for 2015/16 Financial Plan	(£0.5m)
Establishment of ER/VS and IT transformation reserve	£1.1m
Drawdown from Allocated balances for specific purposes	(£0.6m)

Management Commentary

Scottish Borders Council Group Accounts

Group Accounts have been prepared for the year ending 31 March 2016 with a comparator year ending 31 March 2015. The Group Accounts for 2015/16 can be found from page 98. The Group comprises of the following:

Subsidiaries	Associates
SBC Common Good Funds (<i>Registered Charity</i>)	Border Sport and Leisure Trust (BSLT) *
SBC Trust Funds: <i>Registered Charities</i> SBC Charity Funds (<i>77 funds</i>) SBC Community Enhancement Trust SBC Welfare Trust SBC Education Trust Ormiston Trust for Institute Thomas Howden Wildlife Trust <i>and</i> 174 Non- Registered Trusts	Jedburgh Leisure Facilities Trust
Bridge Homes LLP	
SB Cares and SB Support LLP	
	*BSLT became Live Borders on 1 st April 2016 as a result of the integration of Culture, Sport and Leisure services into a single Trust.

Common Good and Trust Funds

The Council is trustee for the 9 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 pages 94 - 97, 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. This investment, like any stock market investment is subject to the 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 2015/16 the Council continued to progress the integration of the remaining Trusts, where possible into the SBC Welfare Trust, SBC Education Trust and SBC Community Enhancement Trust. Project work on the reorganisation will continue throughout 2016/17.

Management Commentary

Bridge Homes LLP

Scottish Borders Council in partnership with Scottish Futures Trust Investments Ltd (SFT) has 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 2015/16 the Council lent £1.36m, bringing the total loan to £2.34m to Bridge Homes under the Scottish Government's Consent to Borrow authority linked to NHT projects and this facilitated the acquisition of 23 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 (SB Cares) and Scottish Borders Supports LLP were launched by the Council on the 1 April 2015 to deliver a variety of social care services. Following a successful first year of operation where 2015/16 Financial Plan savings were fully delivered, these LLPs are included as part of the Group Accounts as subsidiaries from 2015/16.

Live Borders

Borders Sport & Leisure Trust (BSLT) will be replaced as an Associate of Scottish Borders Council in 2016/17 with the new Integrated Sport and Culture Trust, Live Borders. Live Borders was launched on the 1st April 2016 to provide Sport and Culture Services to the Scottish Borders on behalf of the Council.

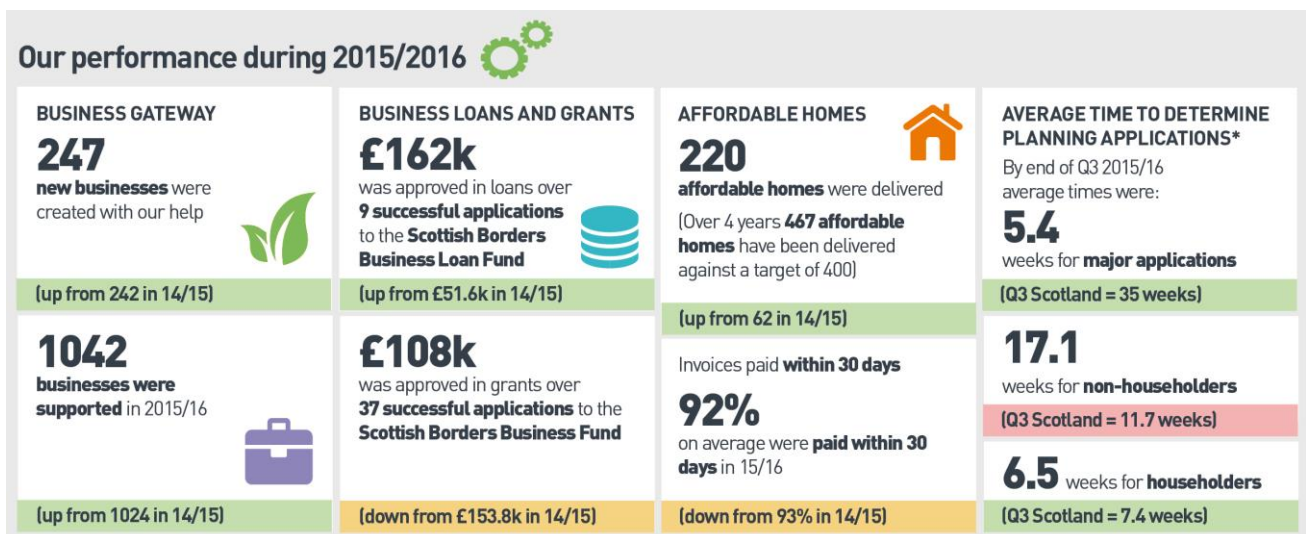
Management Commentary

How are we doing? Performance against our corporate 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 2015/16 and the priorities that we need to focus on moving forward to ensure that our priorities continue to be addressed.

1. Encouraging Sustainable Economic Growth

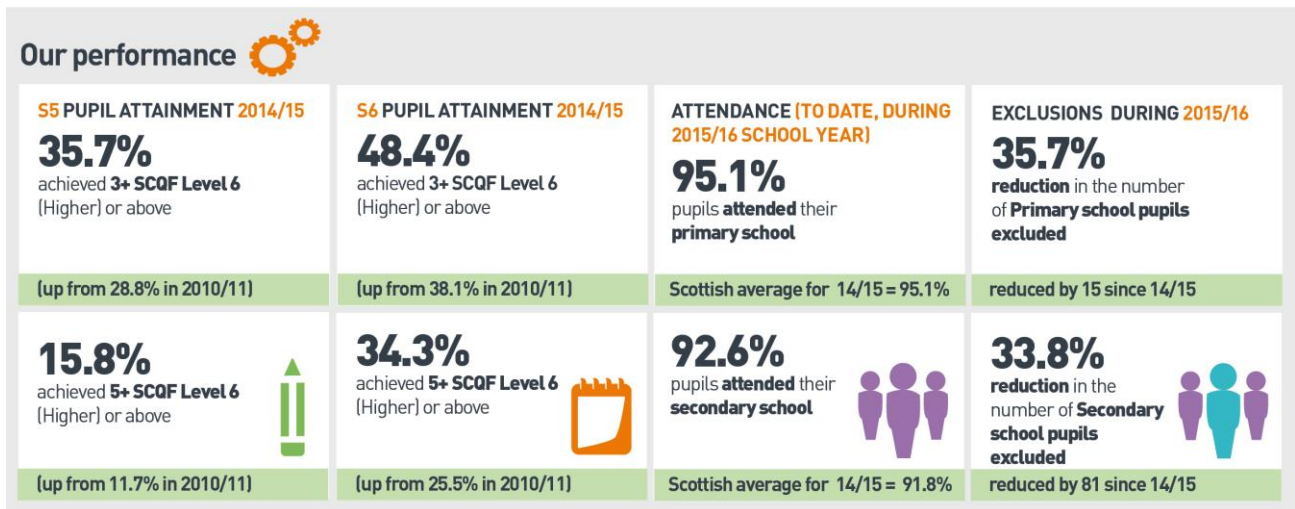


Priorities for the future

- Deliver the actions in the Borders Railway “Blueprint”, including a central Borders Business Park, Great Tapestry of Scotland building, and inward investment activity
- Continue to lobby for improved digital connectivity (broadband and mobile) for the whole region, both in towns and rural areas
- Work with partner councils to secure a “City Deal” for the South East of Scotland, aimed at delivering economic growth through Government investment
- Engage with businesses and partners to develop young people’s skills for work
- Use SBC-owned Bridge Homes to provide affordable housing (£20m programme)

Management Commentary

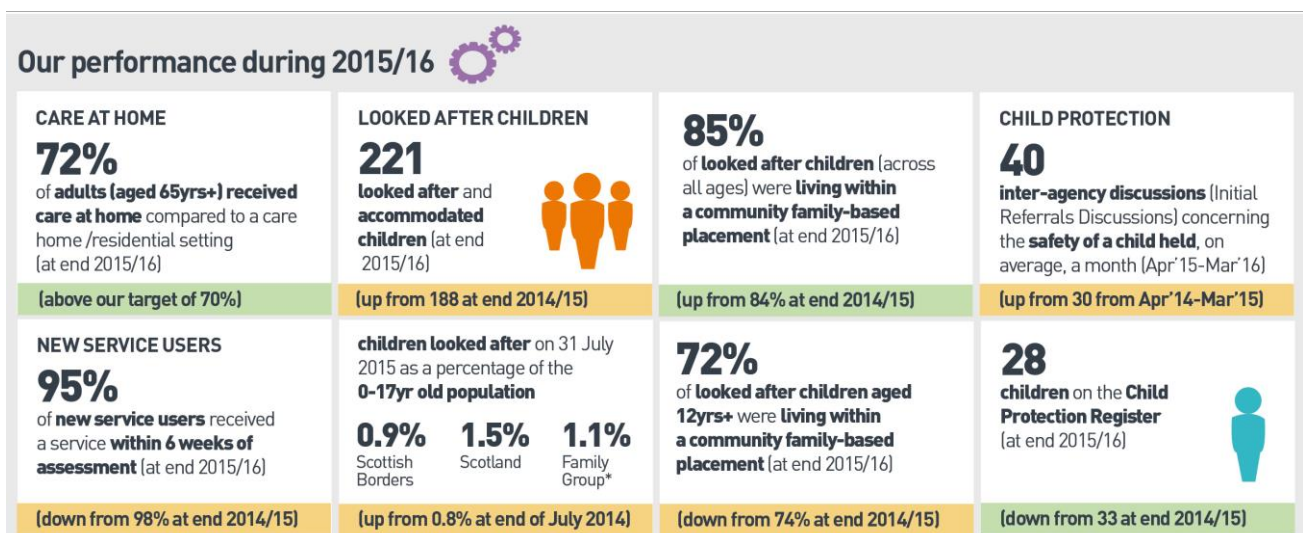
2. Improve attainment and achievement levels for all our children and young people, ensuring an inclusive approach



Priorities for the future

- Through our Children & Young People Transformation Programme, improve the learning experience and opportunities for our children and young people through early intervention and prevention, a fit for purpose school estate and more integrated and streamlined management and administration
- Focus on leadership and professional growth programmes for the staff within our service
- Delivery of new schools in Kelso, Duns and Langlee, Galashiels
- Work with partners to implement the actions in the Developing Scotland's Young Workforce; Youth Employment Strategy (looking specifically at schools & pathways, college, modern apprenticeships, and employer led "invest in young people" groups)

3. Provide high quality support, care and protection to children, young people, adults, families, and older people



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 who require our assistance, for example a child with a learning disability



Management Commentary

4. Build the capacity and resilience of our communities and voluntary sector

April 2015 – March 2016:

TWEEDDALE		EILDON		CHEVIOT	
The following funding was awarded		The following funding was awarded		The following funding was awarded	
£271k National Lottery	£14,210 Quality of Life Fund	£94k National Lottery	£19,720 Quality of Life Fund	£146k National Lottery	£9,253 Quality of Life Fund
£20,189 Community Grants Scheme	£2,014 Neighbourhood Small Schemes Fund	£41,085 Community Grants Scheme	£22,683 Neighbourhood Small Schemes Fund	£22,669 Community Grants Scheme	£25,173 Neighbourhood Small Schemes Fund
14 projects currently in development		25 projects currently in development		15 projects currently in development	
 763 residents have signed up to our SBAAlert service as of March 2016	RESILIENT COMMUNITIES 7 active resilient community plans in place as of March 2016	 1241 residents have signed up to our SBAAlert service as of March 2016	RESILIENT COMMUNITIES 6 active resilient community plans in place as of March 2016	 710 residents have signed up to our SBAAlert service as of March 2016	RESILIENT COMMUNITIES 8 active resilient community plans in place as of March 2016

April 2015 – March 2016:

BERWICKSHIRE		TEVIOT & LIDDESDALE	
The following funding was awarded		The following funding was awarded	
£639k National Lottery	£13,050 Quality of Life Fund	£117k National Lottery	£16,791 Quality of Life Fund
£22,481 Community Grants Scheme	£47,723 Neighbourhood Small Schemes Fund	£25,255 Community Grants Scheme	£24,994 Neighbourhood Small Schemes Fund
29 projects currently in development		18 projects currently in development	
 639 residents have signed up to our SBAAlert service as of March 2016	RESILIENT COMMUNITIES 13 active resilient community plans in place as of March 2016	 435 residents have signed up to our SBAAlert service as of March 2016	RESILIENT COMMUNITIES 1 active resilient community plans in place as of March 2016

Priorities for the future


- Develop a strategic approach to “co-production”, where service users and communities are more involved in service design and delivery
- Complete our pilot “Localities” approach in the Cheviot area (Kelso, Jedburgh and surrounding areas), and roll the approach out across the Borders
- Fully develop our Community Learning and Development (CLD) Strategic Plan 2015-18, aimed at improving life chances and quality of life
- Ensure that SBC is responding proactively to the Community Empowerment Act passed by Scottish Government in June 2015.
- Work with Scottish Government to reach 100% of coverage of superfast broadband of all premises across the Scotland by 2021 (including our more remote communities)

Management Commentary

5. Maintain and improve our high quality environment

April 2015 – March 2016:

ROAD SAFETY 6 people were killed on our roads in 2015 	ROAD SAFETY 62 people were seriously injured on our roads in 2015 	HOUSEHOLD WASTE 37.51% of our household waste , on average, was recycled over the last 12 months 	HOUSEHOLD WASTE 62.22% of our household waste was sent to landfill , on average, over the last 12 months 	HOUSEHOLD WASTE 0.27% of our household waste required 'other' treatment , on average, over the last 12 months
SB last year: 7	SB last year: 61	Scotland: 42.80% SB last year: 36.85%	Scotland: 49.30% SB last year: 62.90%	Scotland: 7.90% SB last year: 0.25%


Our performance during 2015/2016 


ROAD CONDITION 46.3% of the 3,000km of roads in the Scottish Borders should be considered for maintenance (up from 45.5% in 14/15) (Scottish average 37%)	COMMUNITY RECYCLING CENTRES 51.06% of waste was recycled at SBC Community Recycling Centres , on average, over the last 12 months (down from 53.06% during 2014/15)
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Priorities for the future

- Revisit our waste strategy to create efficiency savings, reduce expenditure and provide additional income through the implementation of a revised strategy that is financially and environmentally sustainable
- Implement “spend to save” energy efficiency schemes across the Council estate (including street lighting replacement, and electric vehicle use across SBC)
- Delivery of Low Carbon Economic Strategy Action Plan with community planning partners

6. Develop our workforce

Our performance during 2015/2016 

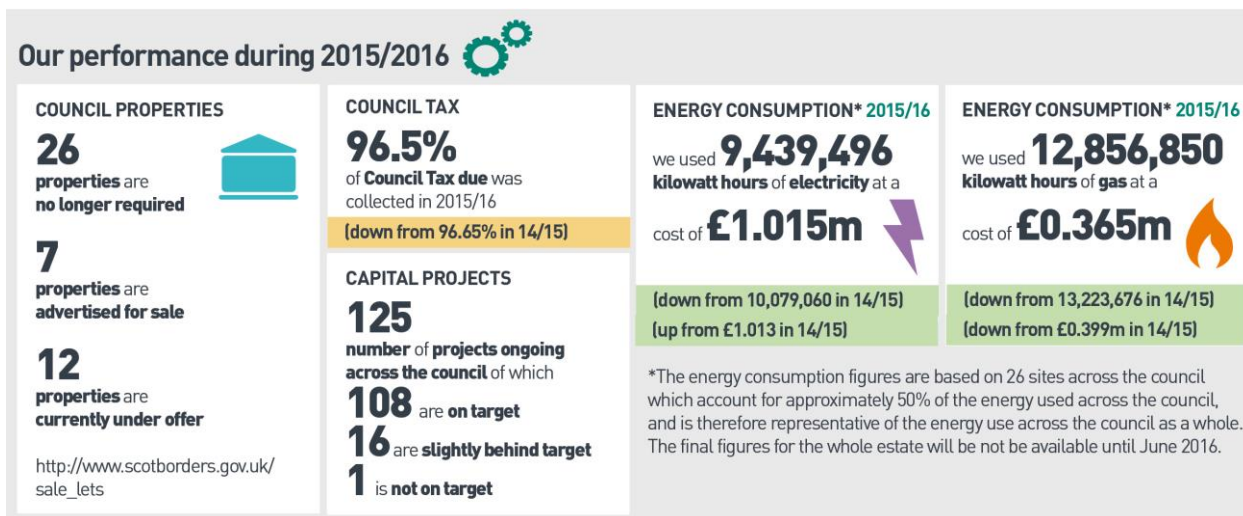
SBC ABSENCE RATE 4.1% of working days were lost , on average, due to absence as of March 2016 (up from 4.0% in March 14/15)	WORK OPPORTUNITIES 56 work opportunities are being supported by SBC through our “Work Opportunities Policy” as of March 2016 (up from 38 in March 14/15) 	SBC STAFF BENEFIT SCHEME 33% of employees have registered their discount card on the Employee Benefit Scheme website since October 2015
SB LEARN 5,123 active learners are using our in-house e-learning tool , SBLearn, as of March 2016 (up from 3,335 in March 14/15)	APPRENTICESHIPS 37 apprentices are employed with SBC as of March 2016 (up from 22 in March 14/15)	APPRENTICESHIPS 73% male 27% female across various departments such as Human Resources, Engineering, Finance (86% male in March 14/15) (14% female in March 14/15)
		42 applications have been approved for the Car Salary Sacrifice Scheme since October 2015
		311 applications have been approved for the Technology Salary Sacrifice Scheme since October 2015

Priorities for the future

- Supporting staff development through workforce and succession planning
- Developing our employee benefits strategy
- Improving employee engagement and communication
- A review of the way in which our staff work, where they work, when they work and the technology they need in the future they

Management Commentary

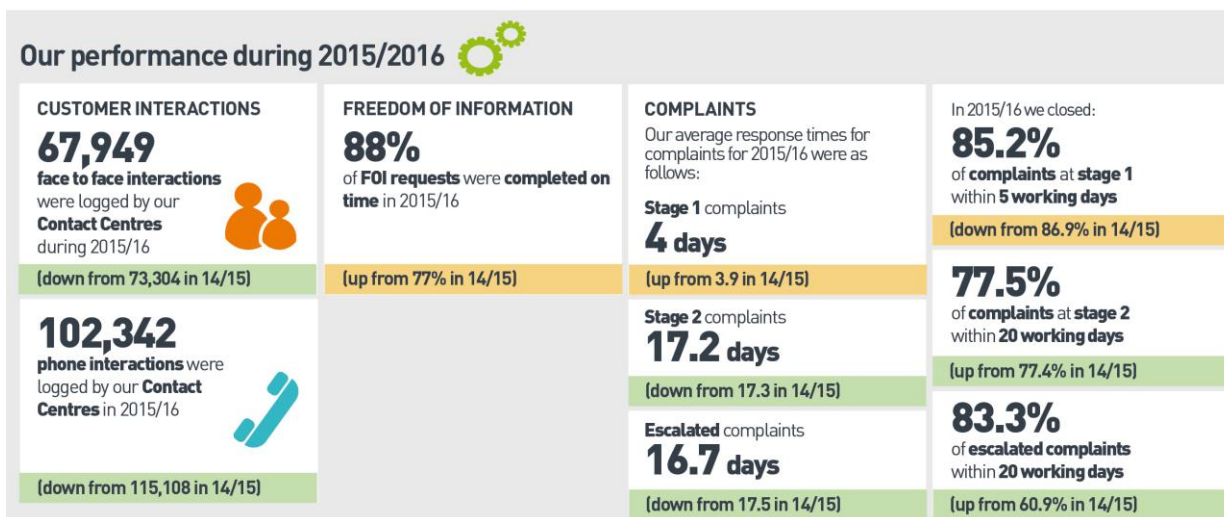
7. Develop our assets and resources



Priorities for the future

- Pursue opportunities around the rationalisation of our estate in order to ensure that we only retain the property we need to deliver services efficiently and effectively
- Explore the possibilities for joint delivery and co-location of services with partners, and the sharing of our property and assets
- Focus on strategic “Spend to Save” projects and initiatives, including a wide range of projects for the estate to save on energy costs
- Focus on a further significant reduction of the office footprint in conjunction with the further adoption of changed working practices so we don’t need as many buildings, and so staff can work more flexibly e.g. from home or using mobile devices when visiting customers

8. Ensure excellent, adaptable, collaborative and accessible public services



Priorities for the future

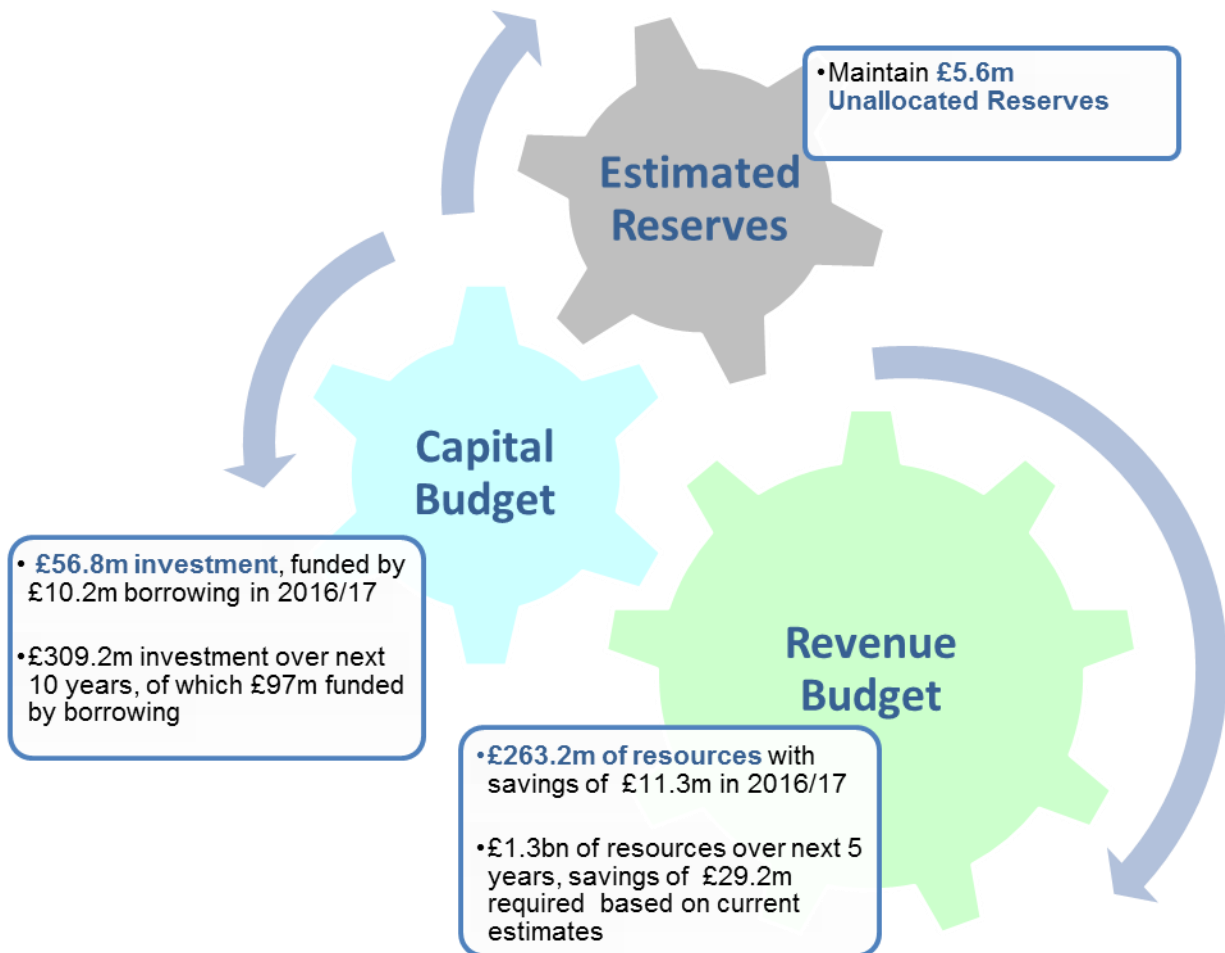
- Continued roll out and development of modern customer services across the Council
- Implement modern ICT systems that support us to deliver services to the customer more efficiently and effectively and help save money
- Expand and update our online services for people who are applying for planning permission or building warrants
- Deliver information sharing requirements across partners
- Review service delivery and Trust models to develop more cost effective service delivery models, for example joint ventures

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 - 2016/17

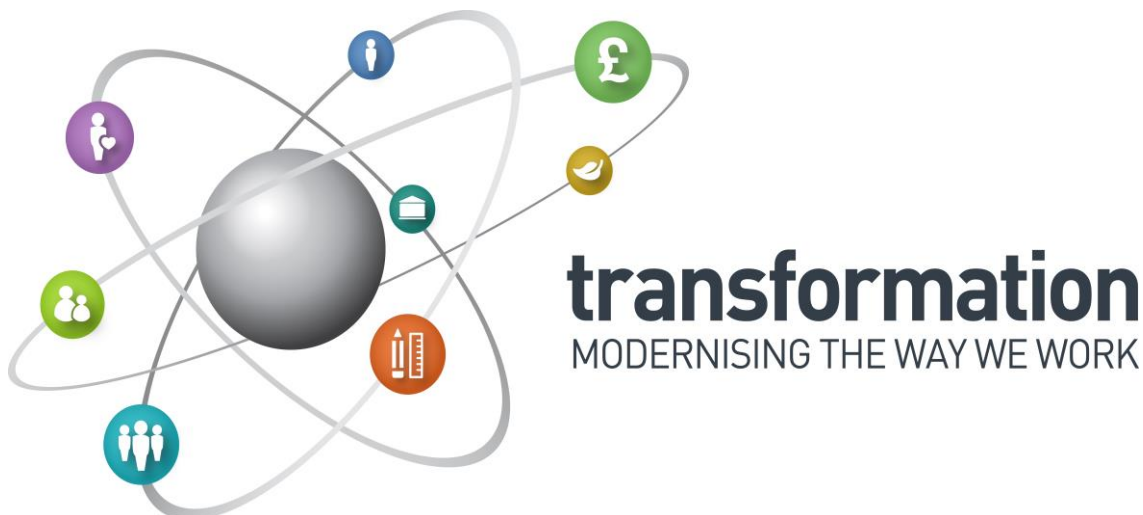


The Revenue and Capital Financial Plans 2016/17 onwards can be found on the Councils webpages at www.scotborders.gov.uk

Management Commentary

Corporate Transformation Programme

Scottish Borders Council has in place an ambitious Corporate Transformation programme of work which provides a framework for the development and delivery of activities and projects to achieve a sustainable financial position over the next 5 years and beyond and underpins the delivery of Elected Member, Corporate and Partnership priorities. Updates are provided to the Executive Committee **on a** quarterly basis and reports are presented to Council on an annual basis.



Below is a list of all the programmes and what they aim to achieve:

Children & Young People

Improve the learning experience and opportunities for our children and young people through early intervention and prevention, a sustainable school estate and more integrated and streamlined management and administration.

Adult Services

Deliver service change and financial savings across a range of Adult services, including SB Cares, reviewed charging and focus on a re-ablement approach to care.

Integration of Health and Social Care

Improved outcomes for service users and carers who will have clear access routes to services and information.

Co-production

Involvement of communities from the outset in the development, design and delivery of service.

Localities Programme

Ensure SBC activity within localities is co-ordinated, via 5 locality plans containing clear actions and accountability.

Waste Plan

Create efficiency savings, reduce expenditure and provide additional income through the implementation of a strategy that is financially and environmentally sustainable.

Railway Programme

Delivery of actions to maximise the full economic and social benefits of the Borders Railway.

Transport

Implement a better, simpler, more accessible and cost effective model of transport service provision, through a multi-agency approach.

Management Commentary

Digital Connectivity

Maximise community and town access to digital connectivity / broadband and mobile telephony.

Alternative Service Delivery Models

Review service delivery and Trust models to develop more cost effective service delivery models (e.g.) Limited Liability Partnerships and joint ventures. This has included the transfer of SBC's cultural services to Borders Sport and Leisure Trust and on 1st April 2016, the formation of an integrated trust "Live Borders"), as well as the creation of SBCares, an arm's length organisation of SBC providing adult care services.

Workforce Transformation

Enable staff to deliver service improvements, review existing management and admin structures and deliver an employee benefit strategy. Implementation of mobile technologies to deliver more effective and efficient ways of working.

ICT Change Programme

IT underpins the majority of the corporate transformation areas and implementation of the ICT strategy will support the delivery of financial savings.

Data / Information Sharing

Deliver information sharing requirements across partners.

Energy Efficiency

Implement spend to save energy efficiency schemes across the Council estate.

Customer First

Continued roll out and development of modern customer services across the Council.

Property & Assets (including Joint Delivery /Co-location)

Pursue opportunities around estate rationalisation, taking full account of future service delivery models and school estate strategy, identifying specific targets for energy efficiencies. Actively pursue opportunities for co-location with our partners and opportunities for joint working.

Business Process Re-engineering

Agreed approach to process improvement applied across a range of service areas.

For more information on any of these programmes visit www.scotborders.gov.uk/transformation

Conclusion

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

David Parker
Leader
Scottish Borders Council

Tracey Logan
Chief Executive

David Robertson CPFA
Chief Financial Officer

28 June 2016

Statement of Responsibilities

The Council's responsibilities

The Council is required to:

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

I confirm that these Annual Accounts were approved for signature by the Council's Audit and Risk Committee at its meeting on 28th June 2016.

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 2016.

David Robertson CPFA
Chief Financial Officer
28 June 2016

Annual Governance Statement 2015/16

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 the 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 2016. 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 Local Code has been reviewed and revised to reflect significant changes in governance arising from alternative service delivery arrangements, new partnership arrangements and other new legislation. It will be presented for Council approval in May 2016.

The key elements of the Council's governance arrangements as set out in the Local Code include:

- 1) The Council has a Single Outcome Agreement (SOA) in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Council's Corporate Plan and the SOA which are approved by Council.
- 2) The Council has an approved Performance Management Framework in place to enable progress to be monitored against the Council's Corporate Plan and Priorities, SOA and associated Service Business Plans and Financial Plans, and to ensure it meets its legal duty to provide best value to people and reports publicly on its performance.
- 3) The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users. The Scottish Borders CPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods.
- 4) The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee and the Scrutiny Committee for reviewing policy decisions.
- 5) 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.
- 6) 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. This includes a range of systems and procedures that are in place to ensure that elected members and employees are not influenced by prejudice or conflicts of interest in dealing with local citizens.
- 7) The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

Annual Governance Statement

- 8) 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.
- 9) The Council has undertaken two significant strategic developments involving different structures for delivering its services, requiring different governance arrangements. Firstly, from 1 April 2015 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, a wholly owned subsidiary for the delivery of the Council's adult care services. Secondly, from 1 April 2016 the Executive Committee will fulfil the performance monitoring role to ensure delivery of the agreed outcomes by the Integrated Culture and Sports Trust and a Member-Trustee Liaison Group has been created as a strategic forum.
- 10) The Council fosters relationships and partnerships with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council's Vision, Values and Standards within the Corporate Plan.
- 11) Significant work has been undertaken over the last 2 years to develop the governance arrangements associated with the Health and Social Care Integration programme ensuring delivery of structural reforms in local authority and NHS services in compliance with new legislation and regulations. The final Scheme of Integration has been approved by Scottish Ministers. The formal establishment of the Integration Joint Board was approved on 7 March 2016, as well as the approval of the Strategic Plan which became live on 1 April 2016, and the formal appointment of the Chief Officer and Chief Finance Officer. 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.
- 12) The corporate management structure consists of the Chief Executive, two Depute Chief Executives and ten Service Directors. 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.
- 13) 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.
- 14) 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.
- 15) 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.
- 16) 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.
- 17) 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.
- 18) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is based on the delivery of an approved plan of systematic and continuous internal audit review of the Council's arrangements carried out by an in-house internal audit team in conformance with the Public Sector Internal Audit Standards.
- 19) The Council responds to the findings and recommendations of internal audit, external audit, scrutiny and inspection bodies. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Annual Governance Statement

- 20) 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.
- 21) 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.
- 22) The Elected Members Development Programme includes the comprehensive Induction programme which is periodically supplemented by additional training. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

Review of Framework

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

The review 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 comments made by external auditors and other external scrutiny bodies and inspection agencies.

The conclusion from the review activity outlined above is that in 2015/16 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

Improvement Areas of Governance

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

- (a) In light of the on-going significant challenges in addressing cost pressures and responding to the changes in government funding: (i) complete roll-out of people planning and succession planning across the Council as part of its people management arrangements; (ii) ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's corporate plan and priorities; (iii) continue to ensure 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 (iv) continue to monitor governance of arms-length external organisations (ALEOs).
- (b) On-going monitoring and review of the Performance Management Framework to ensure it is embedded in service delivery, and informs improvement activity and decision making. This will include the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value, acting as a focus for evidencing value for money in service provision and linked to the business planning cycle.
- (c) The Council's decision to implement the new Business World ERP means that there will be a requirement to review and agree amended Financial Regulations, policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations, and for the provision of financial training to managers and budget holders across the whole Council.
- (d) 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.
- (e) Ensure 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.
- (f) Continue to improve the reporting arrangements to: (i) Evidence that learning from complaints is taking place and SPSO decisions are being reported to elected members; and (ii) Expand the volume of

Annual Governance Statement

compliments and other comments, to gather a wide range of feedback from service users, and ensure these are reflected alongside the arrangements in place for dealing with complaints.

- (g) Development of standardised framework for reviewing strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future and enhancing on-going delivery of capital programmes and projects linked to the corporate transformation programme.
- (h) Establishment of better ways of linking recommendations made by Internal Audit, External Audit and other external scrutiny and inspection bodies to service action plans within each Service Directorate through a more user friendly method of viewing actions in Covalent linked to Performance measures and risk, as clear evidence of continuous improvement.

These actions to enhance the governance arrangements in 2016/17 are incorporated where appropriate within the Council's service directorate business plans and their implementation and operation will be driven and monitored by the Corporate Management Team in order to inform the next annual review.

Certification

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

Tracey Logan
Chief Executive
28 June 2016

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 2015/16 the salary for the Leader of Scottish Borders Council is £33,454. 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 £292,712. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The policy for Scottish Borders Council is to have a maximum of 14 Senior Councillors plus a Council Leader and Convener.

The total remuneration for Scottish Borders Councils' Senior Councillors, excluding the Leader and Convener, is £292,479. 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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£50,000 - £54,999 ^{*^}	-	-	49	48	11	17	60	65
£55,000 - £59,999 ^{*^}	2	2	9	15	5	3	16	20
£60,000 - £64,999 [^]	8	4	3	2	-	1	11	7
£65,000 - £69,999 [*]	-	1	1	2	-	1	1	4
£70,000 - £74,999	5	2	4	5	-	-	9	7
£75,000 - £79,999 [*]	4	-	-	-	-	1	4	1
£80,000 - £84,999 [^]	2	3	-	-	-	-	2	3
£85,000 - £89,999	1	2	-	-	-	-	1	2
£90,000 - £94,999 [*]	-	1	-	-	-	-	-	1
£95,000 - £99,999	1	-	-	-	-	-	1	-
£100,000 - £104,999	1	1	-	-	-	-	1	1
£105,000 - £109,999	1	-	-	-	-	-	1	-
£110,000 - £114,999	-	1	-	-	-	-	-	1
£115,000 - £119,999 [^]	-	-	1	-	-	-	1	-
£120,000 - £124,999	-	-	-	-	-	-	-	-
£125,000 - £129,999	1	1	-	-	-	-	1	1
£130,000 - £134,999 [*]	-	1	-	-	-	-	-	1
£135,000 - £139,999	-	-	-	-	-	-	-	-
£140,000 - £144,999	-	-	-	-	-	-	-	-
£145,000 - £149,999	-	-	-	-	-	-	-	-
£150,000 - £154,999	-	-	-	-	-	-	-	-
£155,000 - £159,999	-	-	-	-	-	-	-	-
£160,000 - £164,999	-	-	-	-	-	-	-	-
£165,000 - £169,999	-	-	-	-	-	-	-	-
£170,000 - £174,999	-	-	-	-	-	-	-	-
£175,000 - £179,999 [*]	-	1	-	-	-	-	-	1
Total	26	20	67	72	16	23	109	115

Key:

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

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

Remuneration Report

Remuneration of Senior Councillors

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

Total Remuneration 2014/15 £	Councillor Name	Responsibility	Salaries, fees and allowances £	Taxable Expenses £	Total Remuneration 2015/16 £
33,123	D Parker	Leader of the Council	33,454	0	33,454
24,842	G Garvie	Convener	25,090	0	25,090
57,965		Leader and Convener Remuneration	58,544	-	58,544
24,842	J Mitchell	Depute Leader of the Council	25,090	0	25,090
22,442	M Cook	Executive Member for HR and Corporate Improvement	22,666	0	22,666
22,442	V Davidson	Executive Member for Culture, Sport, Youth & Communities	22,666	0	22,666
22,442	F Renton	Executive Member for Social Work & Housing	22,666	0	22,666
22,442	D Moffat	Executive Member for Community Safety	22,666	0	22,666
22,442	J Brown	Executive Member for Community Planning/Vice Convener	22,666	0	22,666
22,442	A Aitchison	Executive Member for Education	22,666	0	22,666
22,442	S Bell	Executive Member for Economic Development	22,666	0	22,666
22,442	G Edgar	Executive Member for Roads and Infrastructure	22,666	35	22,701
22,442	D Paterson	Executive Member for Environmental Services	22,666	0	22,666
20,146	W Archibald	Convener of the Licensing Board	20,347	0	20,347
20,146	M Ballantyne	Leader of Opposition	20,347	0	20,347
22,442	R Smith	Executive Member for Planning and Environment	22,666	0	22,666
289,554		Total Other Senior Councillor Remuneration	292,444	35	292,479
347,519		Total Senior Councillor Remuneration	350,988	35	351,023

(1) The total remuneration figures relate to the salary, fees and allowance for 2015-16 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.

2014/15 £'000		2015/16 £'000
660	Salaries	669
98	Expenses	109
758	Total	778

The draft annual return of Councillors' salaries and expenses for 2015/16 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.

2014/15 Total Remuneration £	Name Post Title		2015/16				Total Remuneration £
			Salaries, fees and allowances £	Taxable Expenses £	Compensation for loss of employment £	Benefits other than in cash £	
	Senior Employees in post as at 01/04/15						
128,649	TM Logan	Chief Executive (1)	126,492	-	-	945	127,437
103,251	P Barr	Depute Chief Executive (2)	20,960	-	-	-	20,960
99,816	J McDiarmid	Depute Chief Executive (appointed 7 April 2014)	103,031	-	-	-	103,031
106,515	JR Dickson	Corporate Programmes & Services Director (3)	111,251	-	-	-	111,251
84,970	KD Robertson	Chief Financial Officer	85,227	10	-	-	85,237
78,717	J Craig	Service Director Neighbourhood Services	80,187	-	-	-	80,187
63,607	C Hepburn	Chief Human Resources Officer	66,168	-	-	-	66,168
78,847	EH Torrance	Chief Social Work Officer	80,028	28	-	-	80,056
78,749	GB Frater	Service Director Regulatory Services	80,187	16	-	-	80,203
6,855 (FYE 85,000)	D Manson	Service Director Children & Young People (appointed 2 March 2015)	86,207	-	-	-	86,207
-	B Park	Chief Officer Roads (appointed 5 January 2016)	17,416 (FYE 72,797)	-	-	-	17,416
78,350 (FYE 75,301)	M Joyce	Interim Capital Projects Service Director (left 29 March 2015) Service Director Assets & Infrastructure (appointed 29 March 2016)	677 (FYE 84,000)	-	-	-	677
	Senior Employees departed post before 01/04/16						
80,487	DA Cressey	Service Director Strategy & Policy (left 15 November 2015)	52,630 (FYE 81,694)	-	122,541	-	175,171
72,833	AF Drummond-Hunt	Service Director Commercial Services (left 31 March 2016)	75,456	89	57,748	-	133,293
1,061,646	Total		985,917	143	180,289	945	1,167,294

Notes

- (1) TM Logan figure of £126,492 includes £1,092 for balance of Counting Officer fee for the Scottish Independence Referendum on 18 September 2014 and £2,784 for Returning Officer fee for the General Election on 7 May 2015.
- (2) P Barr seconded to SB Cares (subsidiary) from 1 April 2015. The above figure represents 20% of time employed by SBC, with the remaining 80% (£83,840) met by SB Cares.
- (3) JR Dickson salaries, fee and allowances figure of £111,251 includes £2,276 Depute Local Returning Officer fee for the General Election on 7 May. In addition, compensation payment has been made for annual leave that was not able to be taken due to Emergency Planning commitments.

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

Remuneration Report

Exit Packages

The total cost and numbers of exit packages are set out in the tables below for 2014/15 and 2015/16:

2015/16

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

The total costs of £2.234m 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. In addition the Council's Comprehensive Income and Expenditure Statement includes a provision for £0.155m relating to exit packages agreed in 2015/16 for staff departures which will happen in 2016/17. These costs are included in the pay bandings shown within table above.

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 (1)	-	2	2	92,169
£60,001- £80,000	-	-	-	-
£80,001- £100,000 (2)	-	-	-	-
£100,001- £150,000	-	-	-	-
£150,001- £200,000 (3)	-	-	-	-
Total	21	19	40	626,136

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 2015/16 were as follows:

Whole Time Pay	2015/16
On earnings up to and including £20,500 (2014/15 £20,335)	5.50%
On earnings above £20,500 and up to £25,000 (2014/15 £20,335 to £24,853)	7.25%
On earnings above £25,000 and up to £34,400 (2014/15 £24,853 to £34,096)	8.50%
On earnings above £34,400 and up to £45,800 (2014/15 £34,096 to £45,393)	9.50%
On earnings above £45,800 (2014/15 £45,393)	12.00%

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

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

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

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

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

Remuneration Report

Pension Benefits of Senior Councillors

The pension entitlements for Senior Councillors for the year to 31 March 2016 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 2015	For year to 31 March 2016	Type	As at 31 March 2016	Difference from 31 March 2015
		£	£		£	£
D Parker	Leader of the Council	5,962	6,022	Pension Lump Sum	5,093 p.a. 2,552	717 p.a. 20
G Garvie	Convener	4,472	4,516	Pension Lump Sum	2,126 p.a. -	949 p.a. -
J Mitchell	Depute Leader of the Council	4,472	4,516	Pension Lump Sum	3,517 p.a. 1,739	945 p.a. 251
M J Cook	Executive Member for HR and Corporate Improvement	4,040	4,080	Pension Lump Sum	3,624 p.a. 1,830	467 p.a. 3
V Davidson	Executive Member for Culture, Sport, Youth & Communities	4,040	4,080	Pension Lump Sum	3,375 p.a. 1,686	494 p.a. 18
D P Moffat	Executive Member for Community Safety	4,040	4,080	Pension Lump Sum	3,147 p.a. 1,554	519 p.a. 33
J Brown	Executive Member for Community Planning/Vice Convener	4,040	4,080	Pension Lump Sum	4,391 p.a. 4,869	872 p.a. 277
A Aitchison	Executive Member for Education	4,040	4,080	Pension Lump Sum	3,317 p.a. 1,652	856 p.a. 228
S Bell	Executive Member for Economic Development	4,040	4,080	Pension Lump Sum	1,945 p.a. -	857 p.a. -
G Edgar	Executive Member for Roads and Infrastructure	4,040	4,080	Pension Lump Sum	1,945 p.a. -	857 p.a. -
D Paterson	Executive Member for Environmental Services	4,040	4,080	Pension Lump Sum	7,596 p.a. 15,264	606 p.a. 254
W Archibald	Convener of the Licensing Board (Retired 26/03/2015)	3,626	0	Pension Lump Sum	-	(2,354) p.a. (1,356)
R Smith	Executive Member for Planning and Environment	4,040	4,080	Pension Lump Sum	3,543 p.a. 1,783	859 p.a. 230
Total		54,892	51,774			

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 2016 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 2016.

Name		In-year pension contributions		Accrued pension benefits		
		For year to 31 March 2015	For year to 31 March 2016	Type	As at 31 March 2016	Difference from 31 March 2015
		£	£		£	£
Senior Employees in post as at 01/04/15						
TM Logan	Chief Executive	21,746	21,849	Pension Lump Sum	39,658 p.a 74,762	2,776 p.a. 356
P Barr (1)	Depute Chief Executive	18,584	3,773	Pension Lump Sum	20,080 p.a 22,385	2,404 p.a. 331
J McDiarmid	Depute Chief Executive	17,967	18,546	Pension Lump Sum	3,792 p.a. -	2,128 p.a. -
JR Dickson	Corporate Programme & Service Director	18,401	18,546	Pension Lump Sum	8,727 p.a. -	2,155 p.a. -
KD Robertson	Chief Financial Officer	15,280	15,341	Pension Lump Sum	27,900 p.a. 52,914	1,843 p.a. 209
J Craig	Service Director Neighbourhood Services	14,169	14,434	Pension Lump Sum	28,917 p.a 57,784	2,137 p.a. 1,059
C Hepburn	Chief Human Resources Officer	11,025	11,910	Pension Lump Sum	8,701 p.a 2,203	1,896 p.a. 164
EH Torrance	Chief Social Work Officer	16,531	14,382	Pension Lump Sum	37,787 p.a 84,500	2,165 p.a. 1,249
GB Frater	Service Director Regulatory Services	14,169	14,434	Pension Lump Sum	38,451 p.a 86,388	2,311 p.a. 1,584
D Manson	Service Director Children and Young People (appointed 2 March 2015)	1,234	15,517	Pension Lump Sum	1,877 p.a -	1,761 p.a. -
B Park (2)	Chief Officer Roads (appointed 5 January 2016)	8,322	3,716		25,633 p.a 53,797	9,621 p.a. 19,630
M Joyce (3)	Interim Capital Projects Service Director (left March 2015) Service Director Assets & Infrastructure (appointed 29 March 2016)	13,021	122	Pension Lump Sum	14 p.a -	(1,703) p.a. -
Senior Employees departed post before 01/04/15						
DA Cressey	Service Director Strategy & Policy	14,488	9,191	Pension Lump Sum	36,581 p.a. 82,243	1,373 p.a. 766
AF Drummond-Hunt	Service Director Commercial Services (appointed 1 April 2014)	13,092	13,104	Pension Lump Sum	27,081 p.a 54,334	2,208 p.a. 1,534
Total		198,029	174,865			

Notes

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

- (1) P Barr seconded to SB Cares (subsidiary) from 1 April 2015. The above figure for in year contributions represents 20% of time employed by SBC.
- (2) B Park left employment on 26/04/2015, re-joined on 05/01/2016.
- (3) M Joyce left employment on 29/03/2015, re-joined on 29/03/2016.

David Parker
Leader
Scottish Borders Council

Tracey Logan
Chief Executive

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 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 01/04/2015	(17,136)	(6,923)	(300)	(1,361)	(25,720)	52,327	26,607	

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

Movement in Reserves Statement

Movement in reserves during 2015/16

	General Fund Balance	Capital Fund	Property Maintenance Fund	Insurance Fund	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 01/04/2015	(18,991)	(7,552)	(39)	(1,314)	(27,896)	9,579	(18,317)	31

Movement in reserves during 2015/16

(Surplus)/deficit on provision of services	(4,786)	-	-	-	(4,786)	-	(4,786)	
Other Comprehensive Income & Expenditure	-	-	-	-	-	(43,758)	(43,758)	
Total Comprehensive Income & Expenditure	(4,786)	-	-	-	(4,786)	(43,758)	(48,544)	

Adjustments between accounting basis & funding basis under regulations

Charges for depreciation & amortisation of non-current assets	(21,247)	-	-	-	(21,247)	21,247	-	12 & 14
Impairment Losses (charged to CI&ES)	(1,126)	-	-	-	(1,126)	1,126	-	
Revaluation Losses	(7,754)	-	-	-	(7,754)	7,754	-	
Capital grants and contributions applied	28,939	-	-	-	28,939	(28,939)	-	28
Employee Statutory Adjustments	1,008	-	-	-	1,008	(1,008)	-	
Profit/(Loss) on disposal of assets	(651)	(1,263)	-	-	(1,914)	1,914	-	
Revenue Exp Funded From Capital	-	-	-	-	-	-	-	
Amount by which finance costs charged to the CI&ES are different in accordance with statutory requirements	206	-	-	-	206	(206)	-	
Net retirement charges per IAS 19	(22,496)	-	-	-	(22,496)	22,496	-	
Loans Fund principal repayments and Statutory premia	10,114	-	-	-	10,114	(10,114)	-	
Capital Expenditure charged to General Fund balance	531	-	-	-	531	(531)	-	
Employers contribution payable to Pension Fund	11,250	-	-	-	11,250	(11,250)	-	
Net (Increase)/Decrease before transfers	(6,012)	(1,263)	-	-	(7,275)	(41,269)	(48,544)	
Net Transfers to or (from) other reserves	1,841	2,237	(63)	(7)	4,007	(4,007)	-	
(Increase)/Decrease in 2014/15	(4,171)	974	(63)	(7)	(3,268)	(45,276)	(48,544)	
Balance at 31/03/2016	(23,163)	(6,578)	(102)	(1,321)	(31,164)	(35,697)	(66,861)	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.

2014/15			2015/16				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
118,088	(4,506)	113,582	Education	118,565	(3,257)	115,308	
38,676	(33,469)	5,208	General Fund Housing Services	37,769	(33,138)	4,631	
16,335	(1,942)	14,394	Cultural & Related Services	17,804	(2,608)	15,196	
22,460	(2,852)	19,608	Environmental Services	25,380	(3,394)	21,986	
24,404	(5,844)	18,560	Roads & Transport Services	29,449	(6,545)	22,904	
8,661	(4,376)	4,285	Planning & Development Services	7,387	(3,298)	4,089	
84,144	(14,947)	69,197	Social Work	87,431	(15,357)	72,074	
8,439	(1,434)	7,004	Central Services	9,218	(1,890)	7,328	
685	-	685	Non-Distributed Costs	1,614	(201)	1,413	
321,892	(69,370)	252,522	Services provided by the Council	334,617	(69,688)	264,929	
321,892	(69,370)	252,522	Net Cost of Services	334,617	(69,688)	264,929	
		(165)	Roads Trading Operation (Surplus)/Deficit (External)			(98)	8
		288	Other Operating Expenditure (Gain)/Loss on Disposal of Assets			652	
		11,806	Financing & Investment Income and Expenditure Interest Payable & Similar Charges			12,320	} 29
		(48)	Interest Receivable & Similar Income			(60)	
		8,973	Net Interest Expense on the Net Defined Benefit Liability			5,580	20
		(175,625)	Taxation and Non-Specific Grant Income Revenue Support Grant			(178,870)	
		(31,013)	Non-Domestic Rates Pool for Scotland			(33,707)	
		(46,149)	Council Tax			(46,593)	
		(20,768)	Capital Grants and Contributions			(28,939)	28
		(179)	(Surplus)/Deficit on Provision of Services			(4,786)	

Comprehensive Income and Expenditure Account

2014/15				2015/16			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
		(179)	(Surplus)/Deficit on Provision of Services			(4,786)	
		96	(Surplus)/Deficit on revaluation of Non Current Assets			(8,032)	
		7	Any Other (Gains) Or Losses			-	
		(44,848)	Actuarial (gains)/losses on pension assets/liabilities			(35,726)	
		(44,745)	Other Comprehensive Income and Expenditure			(43,758)	
		(44,924)	Total Comprehensive Income and Expenditure			(48,544)	

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'.

2014/15 £'000		2015/16 £'000	Notes
290,444	Property Plant and Equipment		
14,621	Other Land and Buildings	302,841	12
86,483	Vehicle, Plant, Furniture & Equipment	15,019	
4,730	Infrastructure	89,035	
26,976	Surplus Assets	4,116	
1,014	Assets Under Construction	33,108	
295	Heritage Assets	1,014	13
5,223	Intangible Assets	230	14
	Long Term Debtors	6,412	29
429,786	Long Term Assets	451,775	
-	Intangible Assets - Current	676	14
52	Short Term Investments	-	
966	Inventories	1,020	24
38,219	Short Term Debtors	47,927	30
(8,838)	less Bad Debt Provision	(9,525)	
14,997	Cash and Cash Equivalents	16,476	34
45,396	Current Assets	56,574	
(3,243)	Short Term Borrowing	(3,261)	29
(49,026)	Short Term Creditors	(51,364)	
(1,299)	Provisions	(1,491)	25
(53,568)	Current Liabilities	(56,116)	
(172,076)	Long Term Borrowing	(171,996)	29
(54,330)	Deferred Liabilities	(52,864)	
(517)	Due to Trust Funds and Common Good	(747)	
(3,809)	Provisions	(4,305)	25
(6,493)	Capital Grants Receipts in Advance	(13,868)	
(237,225)	Long Term Liabilities	(243,780)	
184,389	Net Assets excluding pension liability	208,453	
(166,072)	Pension Liability	(141,592)	20
18,317	Net Assets/(Liabilities) including pension liability	66,861	

2014/15 £'000	Financed By:	2015/16 £'000	Notes
	Useable Reserves		
(7,552)	Capital Fund	(6,578)	} 31
(18,991)	General Fund Balance	(23,163)	
(39)	Property Maintenance Fund	(102)	
(1,314)	Insurance Fund	(1,321)	
	Unusable Reserves		
(103,407)	Capital Adjustment Account	(118,459)	} 31
5,395	Financial Instruments Adjustment Account	5,189	
(65,671)	Revaluation Reserve	(70,201)	
166,072	Pension Reserve	141,592	
7,190	STACA Statutory Mitigation Account	6,182	
(18,317)	Total Reserves	(66,861)	

The unaudited accounts were issued on 30 June 2016.

David Robertson CPFA
Chief Financial Officer
28 June 2016

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.

2014/15 £'000		2015/16		Notes
		£'000	£'000	
(179)	Net (Surplus) or deficit on the provision of services	(4,786)		
(34,144)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(37,502)		32
19,201	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	28,202		32
(15,122)	Net Cash Flows From Operating Activities		(14,086)	
	Investing Activities			
32,018	Purchase of PP&E, investment property and intangible assets	46,267		
(745)	Proceeds from PP&E, investment property and intangible assets	(1,263)		
52	Purchase/(Disposal) of short & long term investments	(52)		
(21,627)	Other Items which are Investing Activities	(34,607)		
9,698	Net Cash Flows from Investing Activities		10,345	
	Financing Activities			
(219)	Cash received from loans & other borrowing	-		
1,921	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,462		
167	Repayments of short and long term borrowing	63		
2,250	Other items which are financing activities	737		
4,119	Net Cash Flows from Financing Activities		2,262	
(1,305)	Net (Increase) or Decrease in Cash and Cash Equivalents		(1,479)	
13,692	Cash and Cash Equivalents at the beginning of the reporting period		14,997	
14,997	Cash and Cash Equivalents at the end of the reporting period		16,476	34
(1,305)	Movement		(1,479)	

Accounting Policies

General Principles

The Annual Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. 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 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

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

Accruals of Income and Expenditure

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

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

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

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

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

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

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

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

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

Accounting Policies

Cash and Cash Equivalents

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

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

Charges to Revenue for Non-Current Assets

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

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

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

Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Post Employment Benefits

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

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

Accounting Policies

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

The Local Government Pension Scheme

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

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

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

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

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

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

Service cost comprising:

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

Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Accounting Policies

- 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 Policies

Financial Liabilities:

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

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

Financial Assets:

Financial assets can be classified into two types:

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

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

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

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

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

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

Accounting Policies

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

Fair Value Measurement:

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

Government Grants

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

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

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

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

Accounting Policies

Heritage Assets

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

- **Museum Collection**
The collection of various artefacts is reported on the Balance Sheet using the best available valuations; the Museum Service is working towards compliance with the Code. Where possible external valuations will be used to supplement the professional valuations carried out by Museums Service Officers. The artefacts are deemed to have indeterminate lives and accordingly depreciation is not charged.
- **Fine Arts Collection**
The fine art picture collection is reported on the Balance Sheet on the basis of the professional opinion of value by the officers of the Museum Service using where possible the latest information on comparable pictures from sale rooms. As with the Museum Collection the Service is working towards more external valuation of the collection. The pictures are deemed to have 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 Policies

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.

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

Leases

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

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

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

The Council as Lessee

Finance Leases

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

- A charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability.

Accounting Policies

- 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 2015/16 (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 Policies

- 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 Policies

Measurement: assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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.

Accounting Policies

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 into 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

Accounting Policies

otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

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

Reserves

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Notes to the Core Financial Statements

Note 1 First Time Adoption of Accounting Standards

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, the following Adopted IFRS has been applied for the first time in 2015/16.

IFRS13 Fair Value Measurement

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.

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

Note 3 Critical Judgements in Applying Accounting Policies

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

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

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

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

Notes to the Core Financial Statements

Note 5 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:

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 2015/16

	Chief Executive £'000	People £'000	Place £'000	Other £'000	Total £'000
Employee Costs	18,529	85,841	31,643	2,604	138,617
Premises Costs	2,176	8,575	5,964	2,258	18,973
Transport Costs	375	6,226	17,207	9	23,817
Supplies & Services Costs	6,437	10,452	12,207	50,770	79,866
Third Party Payments	6,485	71,183	5,292	687	83,647
Transfer Payments	-	1,028	-	30,322	31,350
Support Services	6	1,128	560	85	1,779
Capital Charges	89	-	(7)	18,250	18,332
Income	(6,508)	(18,231)	(35,879)	(75,538)	(136,156)
	27,589	166,202	36,987	29,447	260,225

Reconciliation to Subjective Analysis 2015/16

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	138,616	98	4,655	-	143,369	5,580	148,949
Premises Costs	18,973	-	(65)	-	18,908	-	18,908
Transport Costs	23,817	-	(107)	-	23,710	-	23,710
Supplies & Services Costs	79,866	(5,227)	(50)	-	74,590	-	74,590
Third Party Payments	83,647	(4,734)	-	-	78,913	-	78,913
Transfer Payments	31,350	-	-	-	31,350	-	31,350
Support Services	1,779	-	24,096	-	25,875	-	25,875
Capital Charges	18,332	(9,598)	28,353	(8,652)	28,435	12,971	41,406
Income	(136,156)	31	(24,096)	-	(160,221)	(288,267)	(448,488)
	260,223	(19,430)	32,787	(8,652)	264,929	(269,716)	(4,786)

The total of £4.786m 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 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	19,379
Transport Costs	404	6,993	17,030	2	24,429
Supplies & Services Costs	7,207	12,117	10,765	6,853	36,941
Third Party Payments	7,397	53,885	3,845	660	65,788
Transfer Payments	3	992	-	30,372	31,366
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

	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	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	-	30,455
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)
	257,709	(20,255)	24,210	(9,140)	252,522	(252,701)	(179)

The total of £0.179m 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 2015/16 financial year.

Note 7 Prior Year Adjustments

There have been no prior year adjustments made in 2015/16.

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:

2014/15 £'000		2015/16 £'000	3 Year Cumulative £'000
(19,203)	Turnover for the Year	(14,363)	(45,131)
(541)	(Surplus) / Deficit	(384)	(1,510)

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 2015/16 SBc Contracts recorded an annual surplus of £0.384m against a revised budget target of a £0.4m surplus.

In 2015/16 turnover decreased by £5m, or 26% to £14.3m. An exceptional turnover was achieved in 2014/15 due to a number of significant projects including the Borders Railway, the completion of these projects has resulted in the turnover returning to normal levels. Despite this decrease, the Surplus as a % of turnover has only reduced by 0.1% to 2.7%. Of the total turnover, £6.7 million (46.6%) was generated by external work, a decrease of £4.1 million (38% year on year), principally as a result of the completion of the new Borders Railway. The order book remains strong with major works planned or underway on the new Kelso High School, Langlee Primary School, Old Tweed Bridge, Bowanhill Bridge and Groundworks for 3 Projects in Edinburgh for an external client.

SBc Contracts continues to contribute strongly to the local economy by providing sub-contracted work and plant/vehicle hires to the value of £5 million during 2015/16. Within the overall £0.384 million surplus generated in 2015/16, £0.098 million was generated from external work and £0.286 million was generated from internal work.

Significant trading operations are required to at least achieve break-even over rolling three-year periods. For the 3 year period ending in financial year 2015/16 SBc Contracts recorded a surplus in each of the three years and generated a cumulative total surplus of £1.510 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 2015/16 Scottish Borders Council received £0.358m in commission from Scottish Water as part of the agency agreement. This amount is set in legislation by the new Water Order which came into force in April 2014 covering the period April 2014 to March 2018.

Note 10 Related Parties

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

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

Members of the Council have direct control over the financial and operating policies of the Council. A review of the interests declared in the Members' Register of Interests confirmed that the Council had no material transactions with any company in which any member had an interest. The Remuneration Report shows the total allowances paid to senior members in 2015/16. 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 2015/16, the Scottish Borders Council Pension Fund had an average balance of £1.797m (2014/15: £6.603m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.01m (2014/15: £0.022m). In addition the Council charged the Pension Fund £0.339m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement is as follows:

	2014/15	2015/16
Due to/(from) the Scottish Borders Council Pension Fund	£(0.136)m	£(0.671)m

The Council provided routine material financial assistance to other bodies in 2015/16 as follows:

- Borders Sport and Leisure Trust £1.348m
- Jedburgh Leisure Facilities Trust £0.118m
- VisitScotland £0.108m

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 2015/16 to support services are:

Older people	£0.068m
Adults with Learning Difficulties	£1.204m
People with Mental Health Needs	£0.278m
People with Physical Difficulties	£0.073m
Other Support Services	£0.514m

Borders Ability Equipment Store

The Store is run jointly with NHS Borders, with a pooled equipment purchase budget. Gross expenditure totalled £0.922m in 2015/16 with a contribution from the NHS Borders of £0.405m.

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 2015/16 and received no capital repayment from the LLP during the same period. The Council paid £1.49m in respect of advances to Bridge Homes LLP during 2015/16 and again received no capital repayment in the year. The Council received interest on the advance from both LLP's. The Council's net advances to Tweedside NHT 2011 LLP and Bridge Homes LLP are shown within long term debtors on the Council's balance sheet. Bridge Homes LLP have been consolidated into the Council's Group Accounts as a Subsidiary.

SB Supports is a registered Limited Liability Partnership between Scottish Borders Council and SBC Nominees. This was established on 1st April 2015 to work in partnership on the provision of adult social care services. In 2015/16 the Council made a payment of £17.521m to SB Supports.

The Scottish Borders Health and Social Care Integration Board was established on 6th February 2016. This is a partnership between Scottish Borders Council and NHS Borders which has been established to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016. As there has only been a small amount of staffing expenditure incurred in 2015/16, it has been agreed with KPMG that this will not be consolidated into the Council's Group Accounts as a joint venture (in accordance with IFRS11) until 2016/17.

Note 11 Audit Remuneration

In 2015/16 the agreed audit fee for the year was £0.264m in respect of services provided by KPMG (2014/15 £0.274m). This amount includes fees payable to Audit Scotland and covers the audit of Scottish Borders Council's Annual Accounts. The reduction in Audit Fee from 2014/15 can be attributed to the establishment of SB Cares & SB Supports which has transferred some of the audit work from the Council to the new organisation.

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2015/16

	Property Plant & Equipment					Heritage Assets	Total Assets
	Other Land & Buildings	VPFE *	Infrastructure	Assets under Construction	Surplus Assets		
	£'000	£'000	£'000	£'000	£'000		
Gross book value (GBV) at 31 March 2015	317,463	55,541	162,118	26,976	4,866	1,014	567,978
Prior Period adjustment	-	-	-	-	-	-	-
Revised Gross book value (GBV) at 31 March 2015	317,463	55,541	162,118	26,976	4,866	1,014	567,978
Acquisitions & Recognition in the year	6,361	6,142	7,973	24,118	18	-	44,612
Transfers between categories	16,101	-	1,627	(17,986)	258	-	-
Revaluations	6,557	273	89	-	109	-	7,028
Impairments	(8,988)	(380)	(587)	-	(407)	-	(10,362)
Disposals	(1,535)	(2,653)	(70)	-	(604)	-	(4,862)
Gross book value (GBV) at 31 March 2016	335,959	58,923	171,150	33,108	4,240	1,014	604,394
Cumulative depreciation at 31 March 2015	(27,019)	(40,920)	(75,635)	-	(136)	-	(143,710)
Prior Period adjustment	-	-	-	-	-	-	-
Revised Cumulative depreciation at 31 March 2015	(27,019)	(40,920)	(75,635)	-	(136)	-	(143,710)
Depreciation for the year	(8,719)	(5,628)	(6,550)	-	(132)	-	(21,029)
Transfers between categories	50	-	-	-	(50)	-	-
Revaluations	1,185	-	-	-	125	-	1,310
Impairments	1,220	-	-	-	-	-	1,220
Disposals	165	2,644	70	-	69	-	2,948
Cumulative depreciation at 31 March 2016	(33,118)	(43,904)	(82,115)	-	(124)	-	(159,261)
Net book value at 31 March 2016	302,841	15,019	89,035	33,108	4,116	1,014	445,133
Net book value at 31 March 2015	290,444	14,621	86,483	26,976	4,730	1,014	424,268
Prior Period adjustment	0	0	0	0	0	0	0
Revised Net book value at 31 March 2015	290,444	14,621	86,483	26,976	4,730	1,014	424,268

* VPFE – Vehicles, Plant, Furniture and Equipment

The Council had no investment properties in 2015/16.

Notes to the Core Financial Statements

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

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

Negative revaluations are shown within the stated figures for impairment. In 2015/16 this amounted to a NBV of £8.051m.

For net impairments £8.880m was charged to the CIES (14/15 £3.373m) and £0.297m charged to the Revaluation Reserve (£0.430m in 14/15)

Comparative Movements in 2014/15

	Property Plant & Equipment					Heritage Assets	Total Assets £'000
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000		
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	(18,259)	(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	291,625	14,124	83,291	18,452	6,721	997	415,210

Notes to the Core Financial Statements

Capital Commitments

As at 31 March 2016 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 £14.96m. These commitments can be categorised as follows:-

	Capital Commitments as at 31 March 2016 £'000
Place	5,861
People	9,085
Chief Executive's	18
Total	14,964

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 2015/16 the fixed assets relating to Technical Services and Surplus Properties were re-valued. The valuation is an ongoing process carried out throughout the year to arrive at the final valuation figure.
- Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset. Operational properties of a non-specialised nature were valued by reference to the open market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use. In accordance with IFRS13 Fair Value measurement, Surplus assets are now valued at highest and best use. Properties were valued by the Council's Estates Manager, N.Hastie MRICS.

Vehicles, Plant, Furniture and Equipment

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

Infrastructure

- Infrastructure was valued at depreciated historic cost.

Depreciation

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

Depreciation has been directly charged to services.

Notes to the Core Financial Statements

Revaluations

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

Revaluation Cycle

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

- 1 April 2015 – Technical Services and Surplus Properties
- 1 April 2014 – Common Good, Trust and Surplus Properties
- 1 April 2013 – Planning & Economic Development, New West Linton Primary School and Surplus Properties
- 1 April 2012 – Education & Lifelong Learning and Surplus Properties
- 1 April 2011 – Social Work, Resources and Surplus Properties

Social Work Properties will be revalued as at 1 April 2016 with the resulting adjustments incorporated into the 2016/17 accounts of the Council.

	Property Plant & Equipment					Heritage Assets £'000	Total Assets £'000
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000		
Carried at Historical Cost	85,758	58,650	171,052	33,108	(1,902)	1,014	347,680
New Certified Valuation							
1st April 2015	7,742	273	89	-	234	-	8,338
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	211,198	-	-	-	4,840	-	216,038
Gross book value (GBV) at 31 March 2016	335,959	58,923	171,150	33,108	4,240	1,014	604,394

Notes to the Core Financial Statements

Note 13 Heritage Assets

	Museum Collection £'000	Fine Arts Collection £'000	Monuments, Memorials & Statues £'000	Totals Tangible Fixed Assets £'000	Total Heritage Assets £'000
Cost or Valuation at 31 March 2014	161	771	65	997	997
Additions	-	-	17	17	17
Cost or Valuation at 31 March 2015	161	771	82	1,014	1,014
Additions	-	-	-	-	-
Cost or Valuation at 31 March 2016	161	771	82	1,014	1,014

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.

2014/15 £'000		2015/16 £'000
3,396	Gross book value (GBV) at 31 March	3,550
-	Prior Period Adj	-
166	Expenditure in the year	199
(6)	Transfers	-
(6)	Impairments	(46)
-	Disposals	(1,878)
3,550	Gross book value (GBV) at 31 March	1,825
(3,031)	Cumulative amortisation at 31 March	(3,255)
(224)	Amortisation for the year	(218)
-	Transfers	-
-	Disposals	1,878
(3,255)	Cumulative amortisation at 31 March	(1,595)
295	Net book value at 31 March	230

There were no revaluations of intangible assets in 2015/16.

Carbon Reduction Commitment allowances purchased for future years responsibilities are shown as current intangible assets. When the allowances are surrendered to the CRC Registry, the current intangible asset will be reduced by the allowances surrendered and the liability (shown within provisions on page 79) decreased.

Note 15 Assets Held for Sale

The Council had no assets held for sale in 2014/15 or 2015/16.

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 2016 are as follows:

	Repayment of liability and Service Charge	Interest	Total
	£'000	£'000	£'000
Payable in 2016/17	5,746	2,742	8,488
Payable within two to five years	24,618	10,144	34,762
Payable within six to ten years	37,863	10,707	48,570
Payable within eleven to fifteen years	46,757	8,195	54,953
Payable within sixteen to twenty years	57,365	4,809	62,174
Payable within twenty one to twenty five years	35,655	831	36,486
Total	208,004	37,428	245,433

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:

2014/15 £'000		2015/16 £'000
53,079	Net Asset Value	
	Land and buildings	51,783
53,079		51,783

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 2014/15 £'000	Plant & Equipment 2014/15 £'000		Land & Buildings 2015/16 £'000	Plant & Equipment 2015/16 £'000
		Finance Lease Liabilities		
1,812		- Not later than 1 year	1,816	-
6,538		- Later than 1 year and not later than 5 years	6,445	-
47,792		- Later than 5 years	46,419	-
		Finance Costs Payable in Future Years		
2,776		- Not later than 1 year	2,743	-
10,260		- Later than 1 year and not later than 5 years	10,144	-
25,657		- Later than 5 years	24,542	-
94,835		Minimum Lease Payments	92,109	-

The contingent rental figure, recognised as an expense in 2015/16 in respect of the Council's PPP arrangements, was £0.84m (2014/15 £0.82m).

Operating Leases

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

2014/15 £'000		2015/16 £'000
109	Not later than 1 year	94
60	Later than 1 year and not later than 5 years	38
169	Total	132

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:

2014/15 £'000		2015/16 £'000
1,323	Not later than one year	1,566
1,701	Later than one year and not later than five years	1,837
6,543	Later than five years	6,667
9,567	Total	10,070

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.

2014/15 £'000		2015/16 £'000	
258,448	Opening capital financing requirement		260,287
	Capital Investment		
986	Consent to Borrow - National Housing Trust	1,357	
31,358	Property , plant and equipment	44,612	
2,855	Asset Decommissioning Provision	-	
166	Intangible assets	199	46,168
	Sources of Finance		
(356)	Capital Receipts	(1,524)	
(22,240)	Government grants and other contributions	(31,887)	
(112)	NHT Repayment of Principal	-	
(10,818)	Loans fund repayments	(10,114)	(43,525)
260,287	Closing Capital Financing Requirement		262,930

Notes to the Core Financial Statements

2014/15 £'000		2015/16 £'000
	Explanation of Movements in Year	
	Increase in underlying need to borrow (supported by government financial assistance)	
1,839	Increase/(Decrease) in underlying need to borrow (not supported by government financial assistance)	2,643
1,839	Increase in capital financing requirement	2,643

Note 19 Termination Benefits

During 2015/16 the Council terminated, or had agreed to terminate by the Balance Sheet date, the contracts of 71 employees, incurring liabilities of £2.234m - see the Remuneration Report for further detail on the exit packages granted and total cost per band. These packages are attributable to various areas throughout the Council.

Note 20 Defined Benefit Pension Schemes

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

The Council participates in two formal pension schemes:

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

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

Transactions relating to retirement benefits

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

Notes to the Core Financial Statements

2014/15 £'000	Comprehensive Income and Expenditure Statement	2015/16 £'000
	<i>Cost of Services</i>	
16,394	Current Service Costs	17,407
1,094	Past Service Costs, including curtailments	985
	<i>Financing and Investment Income and Expenditure</i>	
8,973	Net Interest Expense	5,580
26,461	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	23,972
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:-	
(37,379)	Return on plan assets (excluding the amount included in the net interest expense)	10,486
(35,030)	Actuarial gains and losses arising on changes in demographic assumptions	-
75,272	Actuarial gains and losses arising on changes in financial assumptions	(45,911)
(47,711)	Other	(301)
(44,848)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(35,726)
	<i>Movement in Reserves Statement</i>	
12,522	Reversal of net charges made for retirement benefits in accordance with the Code	11,246
	Actual amount charged against the General Fund Balance for pensions in the year	
12,517	Employers' contributions payable to the scheme	11,250
1,422	Retirement benefits payable to pensioners	1,476

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:-

2014/15 £'000	Pension Assets and Liabilities Recognised in the Balance Sheet	2015/16 £'000
651,085	Present value of the defined benefit obligation	627,664
(485,013)	Fair value of plan assets	(486,072)
166,072	Sub total	141,592
166,072	Net liability arising from defined benefit obligation	141,592

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 £141.6m has a substantial effect on the net worth of the Council as recorded in the Balance Sheet, reducing the overall net asset value to £66.9m.

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

2014/15 £'000	Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets	2015/16 £'000
433,450	Opening Fair Value of Scheme Assets	485,013
19,477	Interest Income	15,938
	Remeasurement (gains) and losses:-	
37,379	Return on plan assets, excluding the amount included in the net interest expense	(10,486)
(4,012)	Other	(294)
13,939	Employer Contributions including unfunded pensions	12,726
3,994	Contributions by Scheme Participants	3,518
(19,214)	Estimated Benefits Paid	(20,343)
485,013	Closing Fair Value of Scheme Assets	486,072

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

2014/15 £'000	Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligations)	2015/16 £'000
631,848	Opening Defined Benefit Obligation	651,085
16,394	Current Service Cost	17,407
28,124	Interest Cost	21,224
3,994	Contributions by Scheme Participants	3,518
	Remeasurement (gains) and losses:-	
(35,030)	Actuarial (gains)/losses arising from changes in demographic assumptions	-
75,272	Actuarial (gains)/losses arising from changes in financial assumptions	(45,911)
(51,397)	Other	(301)
1,094	Past Service Cost	985
(17,792)	Benefits Paid	(18,867)
(1,422)	Unfunded Pension Payments	(1,476)
651,085	Closing Defined Benefit Obligation	627,664

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 2016.

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.

2014/15 £'000	Local Government Pension Scheme assets comprised:	2015/16 £'000
3,076	Cash and cash equivalents	1,272
	Equity Instruments	
	<i>By industry type</i>	
46,633	Consumer	41,630
42,355	Manufacturing	43,139
8,780	Energy and utilities	6,511
53,965	Financial Institutions	47,689
8,848	Health and Care	11,217
31,398	Information Technology	38,060
191,979		188,246
	Bonds	
	<i>By sector</i>	
44,244	UK Corporate	43,347
8,182	UK Government	8,752
52,426	Other	52,099
	Investment Funds - Quoted in Active Market	
58,573	Managed Fund - UK Equities Passive	55,897
68,784	Managed Fund - Global Equities	74,284
1,476	Managed Fund - Smaller Companies	1,534
26,098	Managed Fund - Property	29,896
154,931		161,611
	Investment Funds - Not Quoted	
82,601		82,844
485,013	Total Assets	486,072

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

2014/15 £'000	Fair Value of Scheme Assets	2015/16 £'000
	Equity instruments:	
	<i>By company size</i>	
191,979	Large capitalisation	188,246

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

2014/15	Basis for Estimating Assets and Liabilities	2015/16
	Mortality assumptions	
	- longevity at 65 for current pensioners (years)	
22.70	Men	22.80
23.60	Women	23.70
	- longevity at 65 for future pensioners (years)	
24.90	Men	25.00
25.90	Women	26.00
3.2%	Rate of inflation - RPI	3.3%
2.4%	Rate of inflation - CPI	2.4%
1.0%	Rate of increase in salaries	0.9%
2.4%	Rate of increase in pensions	2.4%
3.3%	Rate for discounting scheme liabilities	3.7%

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

2014/15		Category Analysis of the Scheme Assets as at 31 March 2015	2015/16	
%	£'000		%	£'000
66	320,811	Equities	66	319,960
2	8,182	Gilts	2	8,752
9	44,244	Other Bonds	9	43,347
5	26,099	Property	6	29,896
1	3,076	Cash	0	1,272
17	82,601	Multi-Asset Fund	17	82,845
100	485,013	Total	100	486,072

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

Notes to the Core Financial Statements

Impact on the Defined Benefit Obligation in the Scheme	Increase in Assumption £'000	Decrease in Assumption £'000
Adjustment to discount rate (increase or decrease 0.1%)	616,492	639,050
Adjustment to long term salary increase (increase or decrease 0.1%)	628,993	626,341
Adjustment to pension increases and deferred revaluation (increase or decrease 0.1%)	637,855	617,663
Adjustment to mortality rating assumption (increase or decrease 1 year)	646,887	609,030

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 2015/16 the Council paid £6.987m to teachers' pensions in respect of teachers' retirement benefits, representing 14.9% of pensionable pay for the period to 31st August 2015 and 17.2% of pensionable pay for the remainder of the financial year (£6.470m and 14.9% in 2014/15). The employer's contribution rate has increased as a result of a revaluation of the Scottish Teacher's pension scheme under the Public Service Pensions Act 2013. There were no contributions remaining payable at the year-end.

The scheme is a defined benefit scheme. Although the scheme is unfunded, teachers' pensions use a notional fund as the basis for calculating the employer's contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of these Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement and added years it has awarded outside of the terms of the teachers' Scheme. In 2015/16 these amounted to £0.695m representing 1.64% of pensionable pay (£0.623m and 1.43% in 2014/15).

Note 22 Scottish Borders Council Pension Fund

Scottish Borders Council manages and administers this Fund which provides pensions and other benefits to its employees and a further 17 employers in the Scottish Borders. As at 31 March 2016 there were 9,587 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

2014/15 £'000		2015/16 £'000
923	Balance outstanding at start of year	966
3,549	Purchases	3,136
(3,523)	Recognised as an expense in the year	(3,112)
17	Written back balances	30
966	Balance outstanding at year-end	1,020

Note 25 Provisions

Provisions are recognised in the accounts when:

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

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

	Contractual Claims £'000	Equal Pay £'000	Voluntary Severance / Early Retirement £'000	Carbon Reduction Commitment Energy Efficiency Scheme £'000	Police Potential Clawback £'000	Asset Decommissioning £'000	CRC Purchased Allowances £'000	Total £'000
Balance at 1 April 2015	(60)	(256)	(342)	(322)	(108)	(4,020)	-	(5,108)
Additional charges to provisions	(172)	-	(209)	(290)	-	(141)	(676)	(1,488)
Payments made or released	58	14	274	315	-	139	-	800
Balance at 31 March 2016	(174)	(242)	(277)	(297)	(108)	(4,022)	(676)	(5,796)
Within 12 Months	(174)	(242)	(277)	(297)	(108)	(177)	(216)	(1,491)
Over 12 months	-	-	-	-	-	(3,845)	(460)	(4,305)
Total	(174)	(242)	(277)	(297)	(108)	(4,022)	(676)	(5,796)

Note 26 Contingent Liabilities

The following contingent liabilities are noted:

- The Council is a scheme creditor of Municipal Mutual Insurance Limited (MMI). This organisation ceased operations in 1992 and has outstanding claim liabilities that are currently being managed by a board until the liabilities are extinguished. This will remain the position until the Scheme Administrator sees fit to revise the Levy percentage either upwards or downwards as required. As the final costs and timing of any further Council contributions cannot therefore be estimated with reasonable accuracy, no further provision has been made in the financial statements in respect of any potential additional payments at this stage. The remaining contingent liability at the Balance Sheet date in respect of claim payments to date, net of the initial levy paid, is £322,548, though MMI have stated that the first £50,000 of this will be free of any levy. The estimate of outstanding claims relating to the Council that have not yet been paid is £27,337 at the Balance Sheet date.

Notes to the Core Financial Statements

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

Note 27 Contingent Assets

The following Contingent Assets are noted:

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

Note 28 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Account in 2015/16.

2014/15 £'000		2015/16 £'000
	Credited to Taxation and Non Specific Grant Income	
(9,677)	General Capital Grant	(11,007)
(3)	Borders Railway	-
(10,929)	Other Grants	(17,569)
(159)	Developer Contributions	(363)
(20,768)	Total	(28,939)
	Credited to Services	
(209)	Education & Lifelong Learning	(227)
(31,473)	General Fund Housing	(31,073)
(23)	Cultural & Related Services	(13)
(586)	Environmental Services	(153)
(1,249)	Social Work	(1,201)
(1,819)	Central Services	(1,634)
(35,359)		(34,301)

Note 29 Financial Instruments

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

Notes to the Core Financial Statements

Fair Value Hierarchy:

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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

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

	31st March 2015			
	Quoted Prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2) - Restated	Significant unobservable inputs (Level 3)	Total - Restated
	£'000	£'000	£'000	£'000
Financial Liabilities				
Financial Liabilities held at amortised cost:				
PWLB debt	-	(233,428)	-	(233,428)
Other debt	-	(54,819)	-	(54,819)
Total	-	(288,247)	-	(288,247)

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

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

Notes to the Core Financial Statements

Financial Instruments - Balances

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

	Long-Term		Current	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Loans and Receivables				
Short Term Investments	-	-	52	-
Cash and Cash Equivalents	-	-	14,997	16,476
Debtors	5,223	6,412	29,381	38,402
Total Loans and Receivables	5,223	6,412	44,430	54,878
Borrowings				
Financial Liabilities (principal amount)	(172,076)	(171,996)	-	-
Accrued interest	-	-	(3,243)	(3,261)
Total Borrowings	(172,076)	(171,996)	(3,243)	(3,261)
Other Liabilities				
PPP and finance lease liabilities	(54,330)	(52,864)	(1,812)	(1,816)
Bonds	-	-	(1,181)	(1,420)
Total other long-term liabilities	(54,330)	(52,864)	(2,993)	(3,236)
Creditors				
Short term creditors at amortised cost (excluding Other Liabilities)	-	-	(46,033)	(48,128)
Total Creditors	-	-	(46,033)	(48,128)

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 2015			31 March 2016	
£'000	%		£'000	%
(44,444)	25	Bonds and Mortgages	(44,365)	25
(127,632)	73	Public Works Loan Board	(127,631)	73
(172,076)	98	Long term borrowing (> 1 year)	(171,996)	98
(3,243)	2	Short Term Borrowing repayable within 12 months	(3,261)	2
(175,319)	100	Total Borrowing	(175,257)	100

Notes to the Core Financial Statements

Analysis of Borrowing by Maturity.

2015 £'000		2016 £'000
(3,243)	Less than 1 year	(3,261)
-	Between 1 and 2 years	-
(12,061)	Between 2 and 7 years	(12,979)
(4,834)	Between 7 and 15 years	(3,853)
(155,181)	More than 15 years	(155,163)
(175,319)	Total	(175,257)

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

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

	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

Notes to the Core Financial Statements

Fair value of Assets and Liabilities carried at Amortised Cost

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

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

The fair values calculated are as follows:

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value Restated	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB debt	(130,350)	(233,428)	(130,371)	(236,795)
Other debt	(44,969)	(54,819)	(44,886)	(71,163)
Total debt	(175,319)	(288,247)	(175,257)	(307,958)
Creditors	(49,026)	(49,026)	(51,364)	(51,364)
Total financial liabilities	(224,345)	(337,273)	(226,621)	(359,322)

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

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables				
Short Term Investments	52	52	-	-
Cash and Cash Equivalents	14,997	14,997	16,476	16,476
Debtors	29,381	29,381	38,402	38,402
Total loans and receivables	44,430	44,430	54,878	54,878

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

Note 30 Nature and Extent of Risks Arising from Financial Instruments

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

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

Notes to the Core Financial Statements

Overall Procedures for Managing Risk

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

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

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

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

The annual Treasury Management Strategy for 2015/16 which incorporates the prudential indicators was approved by the Council on 11 February 2015. The key issues within the strategy were:

- The Authorised Limit for 2015/16 was set at £307.2m. This is the maximum limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £272.4m. 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 £272.3m and £95.3m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt were as follows:

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

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,

Notes to the Core Financial Statements

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

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

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

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

The full Investment Strategy for 2015/16 was approved by the Council on 11 February 2016 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 2016 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.

Notes to the Core Financial Statements

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 12 February 2015:

	Approved Minimum Limits £000	Approved Minimum Limits %	Approved Maximum Limits £000	Approved Maximum Limits %	Actual 31M March 2015 £000	Actual 31M March 2016 £000
Less than one year			63,650	20	3,243	3,261
Between one and two years			63,650	20	0	0
Between two and seven years			63,650	20	12,061	12,979
Between seven and fifteen years			63,650	20	4,834	3,853
More than fifteen years	50,220	20	254,600	80	155,181	155,164
Total					175,319	175,257

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

Notes to the Core Financial Statements

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

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

Debtor and Creditor Analysis

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

Debtors

2014/15 £'000		2015/16 £'000
2,463	Central government bodies	5,919
268	Other local authorities	193
1,696	NHS bodies	2,376
64	Public Corporations and Trading Funds	979
33,728	Bodies External to General Government	38,460
38,218		47,927

Creditors

2014/15 £'000		2015/16 £'000
(866)	Central government bodies	(3,903)
-	Other local authorities	(2)
(556)	NHS Bodies	(106)
(2,771)	Public Corporations and Trading Funds	(1,764)
(44,833)	Bodies External to General Government	(45,589)
(49,026)		(51,364)

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 2015	Transfers between reserves and funds	Gains or Losses for the Year	Balance as at 31 March 2016
	£'000	£'000	£'000	£'000
Usable Reserves				
General Fund Balances	(18,991)	615	(4,786)	(23,163)
Capital Fund	(7,552)	974	-	(6,578)
Property Maintenance Fund	(39)	(63)	-	(102)
Insurance Fund	(1,314)	(7)	-	(1,321)
Unusable Reserves				
Capital Adjustment Account	(103,407)	(15,052)	-	(118,459)
Financial Instruments Adjustment Account	5,395	(206)	-	5,189
Revaluation Reserve	(65,671)	3,501	(8,032)	(70,201)
Pensions Reserve	166,072	11,246	(35,726)	141,592
STACA Statutory Mitigation Acct	7,190	(1,008)	-	6,182
Total	(18,317)	0	(48,544)	(66,861)

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:

2014/15	Analysis as at 31 March	2015/16
£'000		£'000
	Earmarked Reserves	
(1,722)	Education - Devolved School Management	(1,906)
	Specific Departmental Reserves	
(811)	Education	(1,817)
(284)	General Fund Housing Services	(238)
	- Cultural & Related Services	(29)
(263)	Environmental Services	(100)
	- Roads & Transport	(249)
(236)	Planning & Development Services	(158)
(906)	Social Work	(1,618)
(1,770)	Central Services	(2,572)
	- Revenue Support Grant	(1,676)
(1,500)	Treasury Reserve	(1,500)
(7,492)		(11,863)
(11,499)	Non-earmarked Reserve	(11,300)
(18,991)	Total General Fund Reserve	(23,163)

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

2014/15		2015/16
£'000	Reconciliation to General Fund Surplus	£'000
(179)	Net (Surplus) or deficit on the provision of services	(4,786)
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(20,662)	Depreciation	(21,029)
(3,373)	Impairment & Revaluation Loss through I & E	(8,880)
(224)	Amortisation of intangible assets	(218)
(12,522)	Movement in pension liability	(11,246)
(288)	Gain/Loss on carrying amounts of assets disposed	(651)
44	Net movement in inventories charged to I & E	54
5,825	Net movement in debtors charged to I & E	9,607
(3,290)	Net movement in creditors charged to I & E	(5,129)
346	Net movement in provisions charged to I & E	(10)
(34,144)		(37,502)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
20,768	Capital grants received	28,939
(1,567)	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(737)
19,201		28,202
(15,122)	Net Cash Outflow / (Inflow) from Operating Activities	(14,086)

Note 33

Impairment Losses

During 2015/16 SBC recognised a net impairment loss of £9.187m (£3.809m in 2014/15). A net cost of £8.880m 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:

2014/15		2015/16
£'000		£'000
65	Cash held by officers	57
3,332	Bank current accounts	4,939
11,600	Short term deposits	11,480
14,997	Total	16,476

Supplementary Financial Statements

Council Tax Income Account

2014/15			2015/16	
£'000	£'000		£'000	£'000
	(57,337)	Gross Charges Levied		(57,679)
5,517		Less: Benefits	5,180	
5,517			5,180	
5,078		Discounts	5,179	
631		Provision for bad debts	635	
(38)		Miscellaneous	93	
	11,187			11,086
	(46,150)			(46,593)
	(46,150)	Total Income Credited to the Comprehensive Income & Expenditure Statement		(46,593)

Notes to the Council Tax Income Account

Note 1 Calculation of Council Tax base at 1 April 2015

Band	Number of Properties	Proportion	Band D Equivalent	Council Tax 2015/16 £
A	16,525	6/9	11,017	722.67
B	12,740	7/9	9,909	843.11
C	6,937	8/9	6,166	963.56
D	5,862	9/9	5,862	1,084.00
E	6,340	11/9	7,749	1,324.89
F	4,660	13/9	6,731	1,565.78
G	4,289	15/9	7,148	1,806.67
H	455	18/9	910	2,168.00
Total	57,808		55,490	
Less : Reductions for estimated discounts, exemptions, reliefs, rebates, etc. and non-collection			(13,006)	
Estimated net income from a Council Tax of £1 for 2015/16			£42,484	

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 2015/16 the Band D charges were £193.14 for water and £224.19 for waste water.

Supplementary Financial Statements

Non-Domestic Rate Income Account

2014/15			2015/16	
£'000	£'000		£'000	£'000
	(37,295)	Gross Rates Levied & Contribution in Lieu		(39,857)
8,343		Less: Reliefs and Other Deductions	8,629	
356		Write-offs of uncollectable debts & allowance for impairment	375	
-	8,699	Interest paid on overpaid rates		9,004
	(28,595)			(30,843)
	(127)	Net General Fund expenditure on discretionary reliefs		(135)
	(28,722)	Net Non-Domestic Rate Income		(30,978)
	(353)	Adjustment to Previous Years National Non-Domestic Rates		(170)
	(29,075)	Contribution to National Pool		(31,148)
	31,013	Distribution received from National Pool		33,707
	(31,013)	Income Credited to the Comprehensive Income & Expenditure Statement		(33,707)

Notes to the Non-Domestic Rate Income Account

Note 1 Rateable Subjects at 31 March 2016

Classification	Number	Rateable Value £'000
Shops	1,247	19,722
Public Houses	89	1,301
Offices including Banks	894	7,766
Hotels, Boarding Houses, etc	138	3,337
Industrial and Freight transport	1,913	23,485
Leisure, Entertainment, Caravan sites, etc	959	5,001
Garages and Petrol Stations	220	1,860
Cultural and Sporting	141	873
Education and Training	103	9,424
Public Service	434	4,730
Communications	7	17
Quarries, Mines, etc	13	363
Petrochemical	5	1,395
Religious	291	1,225
Health and Medical	99	3,892
Care Facilities	95	1,913
Other	548	1,763
Advertising	9	14
Undertakings	21	2,965
Total	7,226	91,045

Note 2 Non-Domestic Rates

The Non-Domestic rate is fixed by the Scottish Government and for 2015/16 was:
 48.0p for properties with a rateable value up to £35,000
 49.3p 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. 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 58.

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

2014/15 Restated £'000		Charitable £'000	Other £'000	2015/16 Total £'000
	Income			
(66)	Dividends and Interest	(34)	(30)	(64)
(61)	Rents	-	(55)	(55)
(11)	Donations & Grants	-	(4)	(4)
(69)	Unrealised Gain on Investments	-	-	-
	Expenditure			
15	Administration	-	9	9
44	Grants to Beneficiaries	19	18	37
84	Depreciation	26	58	84
(64)	(Surplus) / Deficit for the Year	11	(4)	7
(870)	(Surplus) brought forward	(312)	(514)	(826)
(84)	Funding (brought forward/carried forward) to Revaluation Reserve	(26)	(58)	(84)
192	Transfer to Capital Reserve	(2)	5	3
-	Movement between Revenue & Capital Reserves	16	64	80
(826)	(Surplus) carry forward	(313)	(507)	(820)

Trust Funds

Balance Sheet

2014/15 Restated £'000		Charitable £'000	Other £'000	2015/16 Total £'000
	Non-current Assets			
1,763	Land and Buildings	241	1,447	1,688
2,053	Investments	741	1,269	2,010
2	Long term Loan	-	2	2
	Current Assets			
128	Short Term Investments	45	226	271
69	Sundry Debtors	-	22	22
	Current Liabilities			
(13)	Sundry Creditors	-	(15)	(15)
4,002	Net Assets	1,027	2,951	3,978
	Financed by			
(826)	Revenue Reserve	(329)	(491)	(820)
(1,482)	Capital Reserve	(507)	(1,031)	(1,538)
(1,694)	Revaluation Reserve	(190)	(1,430)	(1,620)
(4,002)		(1,026)	(2,952)	(3,978)

Common Good Funds

The Council administers the Common Good Funds for nine towns within its area. The statements below give the income and expenditure for the year and the assets and liabilities at 31 March 2016, for each of the funds. The accounting policies applied are those as set out in pages 46 to 58.

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 2014/15 £'000		2015/16									Total £'000
		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	
	Income										
(248)	Fees and Charges			(104)	-			(10)	(55)	(69)	(238)
(60)	Investment Income	-	(1)	(9)	-	(22)	(6)	(5)	(9)	(3)	(55)
(36)	Grant Income	(1)	(4)	(16)	-	(14)	(1)	(56)	(8)	(5)	(105)
(344)		(1)	(5)	(129)	-	(36)	(7)	(71)	(72)	(77)	(398)
	Expenditure										
170	Property Costs	2		74	-			11	16	21	124
291	Depreciation	-	36	40	17	12	43	11	37	76	272
48	Administrative Costs	2	2	11	-	4	2	10	8	10	49
85	Donations and Contributions		1	17	-	10	8	-	37	15	88
594		4	39	142	17	26	53	32	98	122	533

250	(Surplus) / Deficit	3	34	13	17	(10)	46	(39)	26	45	135
(579)	(Surplus) / Deficit brought forward	(20)	(10)	(101)	-	(81)	(39)	(26)	(54)	(85)	(416)
(291)	Funding (from)/to Revaluation Reserve	-	(36)	(40)	(17)	(12)	(43)	(11)	(37)	(76)	(272)
204	Transfer (from)/to Capital Reserve	-	5	-	-	-	-	40	-	-	45
(416)	(Surplus)/Deficit carried forward	(17)	(7)	(128)	-	(103)	(36)	(36)	(65)	(116)	(508)

Common Good Funds

Balance Sheets

Total 2014/15 £'000		2015/16									
		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
	Non-current Assets										
10,597	Land & Buildings	3	625	3,635	307	477	822	1,016	876	3,235	10,996
25	Heritage Assets	-	-	3	-	-	19	-	2	2	26
0	Other Fixed Assets	-	-	-	-	-	-	-	-	-	-
2,350	Investments	-	26	372	-	941	255	249	384	135	2,362
77	Long Term Loan to Third Party	-	-	-	-	47	-	13	-	-	60
	Current Assets										
20	Sundry Debtors			5				8	8		21
0	Capital Advances to Loans Fund										-
389	Short Term Investments	17	6	134		57	36	24	70	131	475
-	Inventories										-
	Current Liabilities										
(66)	Sundry Creditors			(11)		(1)		(5)	(13)	(15)	(45)
13,392	Net Assets	20	657	4,138	307	1,521	1,132	1,305	1,327	3,488	13,895
	Financed by										
(416)	Revenue Reserve	(17)	(7)	(128)		(103)	(36)	(36)	(65)	(116)	(508)
(2,546)	Capital Reserve		(179)	(508)	(135)	(944)	(255)	(255)	(434)	(135)	(2,845)
(10,430)	Revaluation Reserve	(3)	(471)	(3,502)	(172)	(474)	(841)	(1,014)	(828)	(3,237)	(10,542)
(13,392)	Total Reserves	(20)	(657)	(4,138)	(307)	(1,521)	(1,132)	(1,305)	(1,327)	(3,488)	(13,895)

Group Accounts

Introduction to the Group Accounts

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

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

The Group Accounts and Notes are set out on pages 98 to 107.

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

Subsidiaries

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

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

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 97. Bridge Homes LLP, a partnership between the Council and Scottish Futures Trust Investments Ltd, created to invest in residential property and in which the Council is entitled to 99.999% of the profits and equally exposed to 99.999% of the losses, is also treated as a subsidiary body. SB Supports and SB Cares LLP are registered Limited Liability Partnerships between Scottish Borders Council and SBC Nominees, working in partnership to provide adult social care services. The financial statements for Bridge Homes LLP, SB Supports LLP and SB Cares LLP are available from Council Headquarters.

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 43.9% 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 2016 have been used. The company's draft Statement of Financial Activities shows an operating profit of £0.032m for the year to 31 March 2016 of which £0.013m has been included in the Group Accounts. The company's draft balance Sheet as at 31 March 2016 shows net assets of £1.829m of which £0.803m has been included in the Group Accounts.

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

Group Comprehensive Income and Expenditure Statement

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 40.5% 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 2016 have been used. The company's draft Statement of Financial Activities shows an operating deficit of £0.010m for the year to 31 March 2016 of which £0.004m has been included in the Group Accounts. The company's draft Balance Sheet as at 31 March 2016 shows net assets of £0.001m of which £0.000m 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 commenced a joint arrangement with NHS Borders to establish The Scottish Borders Health and Social Care Integration Board on 6th February 2016. This is a partnership set up to bring about change in the way health and social care services are planned, commissioned and delivered from 1st April 2016. As there has only been a small amount of staffing expenditure incurred in 2015/16, it has been agreed with KPMG that this will not be consolidated into the Council's Group Accounts as a joint venture (in accordance with IFRS11) until 2016/17.

Group Comprehensive Income and Expenditure Statement

Movement in reserves during 2014/15

	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 Expenditure 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

Movement in reserves during 2015/16

	Scottish Borders Council Usable Reserves	Group Entities Usable Reserves	Total Group Usable Reserves	Scottish Borders Council Unusable Reserves	Group Entities Unusable Reserves	Total Group Unusable Reserves	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 01/04/2015	(27,896)	(6,213)	(34,109)	9,579	(12,297)	(2,718)	(36,827)
Prior Year Adjustment		26	26		6	6	32
Restated Balance at 01/04/2015	(27,896)	(6,187)	(34,083)	9,579	(12,291)	(2,712)	(36,795)

Movement in reserves during 2015/16

(Surplus)/deficit on provision of services	(4,786)	462	(4,324)	-	-	-	(4,324)
Other Comprehensive Income & Expenditure	-	(353)	(353)	(43,758)	332	(43,426)	(43,779)
Total Comprehensive Income & Expenditure	(4,786)	109	(4,677)	(43,758)	332	(43,426)	(48,103)

Adjustments between accounting basis & funding basis under regulations

Charges for depreciation & amortisation of non-current assets	(21,247)	-	(21,247)	21,247	-	21,247	-
Impairment losses (charged to CI&ES)	(1,126)	-	(1,126)	1,126	-	1,126	-
Revaluation Losses	(7,754)	-	(7,754)	7,754	-	7,754	-
Capital grants and contributions applied	28,939	-	28,939	(28,939)	-	(28,939)	-
Employee - Statutory Adjustments	1,008	-	1,008	(1,008)	-	(1,008)	-
Profit/(Loss) on disposal of assets	(1,914)	-	(1,914)	1,914	-	1,914	-
Revenue Expenditure Funded from Capital	-	-	-	-	-	-	-
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	(22,496)	-	(22,496)	22,496	-	22,496	-
Loans Fund principal repayments and Statutory premia	10,114	-	10,114	(10,114)	-	(10,114)	-
Capital Expenditure charged to General Fund balance	531	-	531	(531)	-	(531)	-
Employers contribution payable to Pension Fund	11,250	-	11,250	(11,250)	-	(11,250)	-
Net (Increase)/Decrease before transfers	(7,275)	109	(7,166)	(41,269)	332	(40,937)	(48,103)
Net Transfers to or (from) other reserves	4,007	(356)	3,651	(4,007)	356	(3,651)	-
(Increase)/Decrease in 2015/16	(3,268)	(247)	(3,515)	(45,276)	688	(44,588)	(48,103)
Balance at 31/03/2016	(31,164)	(6,434)	(37,598)	(35,697)	(11,603)	(47,300)	(84,898)

Group Comprehensive Income and Expenditure Statement

2014/15			2015/16			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
118,088	(4,506)	113,582	Education	118,565	(3,257)	115,308
38,690	(33,481)	5,209	General Fund Housing Services	37,820	(33,219)	4,601
16,335	(1,942)	14,393	Cultural & Related Services	17,804	(2,608)	15,196
22,460	(2,852)	19,608	Environmental Services	25,380	(3,394)	21,986
24,404	(5,844)	18,560	Roads & Transport Services	29,449	(6,545)	22,904
8,661	(4,376)	4,285	Planning & Development Services	7,387	(3,298)	4,089
84,144	(14,947)	69,197	Social Work	87,818	(15,414)	72,404
8,439	(1,434)	7,005	Central Services	9,218	(1,890)	7,328
685	-	685	Non-Distributed Costs	1,614	(201)	1,413
594	(284)	310	Common Good	533	(343)	190
143	(141)	2	Trust Funds	130	(59)	71
2,757	(2,716)	41	Share of Operating Results of Associates	2,697	(2,711)	(14)
325,400	(72,523)	252,877	Services provided by the Council	338,416	(72,940)	265,476
325,400	(72,523)	252,877	Net Cost of Services	338,416	(72,940)	265,476
		(165)	Roads Trading Operation (Surplus)/Deficit (External)			(98)
		288	Other Operating Expenditure (Gain)/Loss on Disposal of Assets			652
		11,806	Financing & Investment Income and Expenditure Interest Payable & Similar Charges			12,320
		(164)	Interest Receivable & Similar Income			(148)
		8,973	Net Interest Expense on the Net Defined Benefit Liability			5,580
		4	Share of Associates Interest Payable			3
		(29)	Share of Associates Interest & Investment Income			-
		-	Share of Associates Pension Interest Cost & Expected Return on Pension Assets			-
		(175,625)	Taxation and Non-Specific Grant Income Revenue Support Grant			(178,870)
		(31,013)	Non-Domestic Rates Pool for Scotland			(33,707)
		(46,149)	Council Tax			(46,593)
		(20,768)	Capital Grants and Contributions			(28,939)
		35	(Surplus)/Deficit on Provision of Services			(4,324)

Group Comprehensive Income and Expenditure Statement

2014/15				2015/16		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	£'000	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
		35	(Surplus)/Deficit on Provision of Services			(4,324)
		(4,423)	(Surplus)/Deficit on revaluation of Non Current Assets			(8,426)
		(288)	Any Other (Gains) Or Losses			(353)
		(420)	Actuarial (gains)/losses on pension assets/liabilities			(35,000)
		(5,131)	Other Comprehensive Income and Expenditure			(43,779)
		(5,096)	Total Comprehensive Income and Expenditure			(48,103)

Group Balance Sheet

Restated 2014/15 £'000		2015/16 £'000
302,804	Property Plant and Equipment	
14,621	Other Land and Buildings	318,192
86,483	Vehicle, Plant, Furniture & Equipment	15,046
4,730	Infrastructure	89,035
26,976	Surplus Assets	4,116
1,039	Assets Under Construction	33,108
1,290	Heritage Assets	1,040
295	Investment Property	-
4,403	Intangible Assets	230
1,134	Long Term Investments	4,372
4,316	Investments in Associates	1,328
	Long Term Debtors	4,131
448,091	Long Term Assets	470,598
-	Intangible Assets - Current	676
52	Short Term Investments	-
966	Inventories	1,051
38,291	Short Term Debtors	47,702
(8,838)	less Bad Debt Provision	(9,525)
15,001	Cash and Cash Equivalents	17,902
45,472	Current Assets	57,806
(3,243)	Short Term Borrowing	(3,261)
(49,105)	Short Term Creditors	(52,877)
(1,299)	Provisions	(1,491)
(53,647)	Current Liabilities	(57,629)
(172,076)	Long Term Borrowing	(171,996)
(54,330)	Deferred Liabilities	(52,864)
-	Finance Leases/Bonds	-
(341)	Liabilities of Associates	(255)
(3,809)	Provisions	(4,305)
(6,493)	Capital Grants Receipts in Advance	(13,868)
(237,049)	Long Term Liabilities	(243,288)
202,867	Net Assets excluding pension liability	227,487
(166,072)	Pension Liability	(142,589)
36,795	Net Assets/(Liabilities) including pension liability	84,898

Group Balance Sheet

2014/15 £'000	Financed By:	2015/16 £'000
	Useable Reserves	
(7,552)	Capital Fund	(6,578)
(18,991)	General Fund Balance	(23,163)
(39)	Property Maintenance Fund	(102)
(1,314)	Insurance Fund	(1,321)
(6,187)	Share of Group Entities Usable Reserves	(6,434)
	Unusable Reserves	
(103,407)	Capital Adjustment Account	(118,459)
5,395	Financial Instruments Adjustment Account	5,189
(65,671)	Revaluation Reserve	(70,201)
166,072	Pension Reserve	141,592
7,190	STACA Statutory Mitigation Account	6,182
(12,291)	Share of Group Entities Unusable Reserves	(11,603)
(36,795)	Total Reserves	(84,898)

The unaudited accounts were issued on 30 June 2016 and the audited accounts were authorised for issue on xx xx 2016.

Group Cash Flow Statement

2014/15		2015/16	
£'000		£'000	£'000
35	Net (Surplus) or deficit on the provision of services	(4,326)	
(16)	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	11	
(34,558)	Adjustments to net (surplus) or deficit on the provision of services for non cash movements	(39,579)	
19,201	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	28,202	
(15,338)	Net Cash Flows From Operating Activities		(15,693)
	Investing Activities		
33,307	Purchase of PP&E, investment property and intangible assets	47,693	
(745)	Proceeds from PP&E, investment property and intangible assets	(1,263)	
291	Purchase/(Disposal) of short & long term investments	207	
(21,930)	Other Items which are Investing Activities	(34,733)	
10,923	Net Cash Flows from Investing Activities		11,904
	Financing Activities		
(246)	Cash received from loans & other borrowing	(17)	
1,921	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,462	
167	Repayments of short and long term borrowing	63	
1,264	Other items which are financing activities	(620)	
3,106	Net Cash Flows from Financing Activities		888
(1,309)	Net (Increase) or Decrease in Cash and Cash Equivalents		(2,901)
13,692	Cash and Cash Equivalents at the beginning of the reporting period		15,001
15,001	Cash and Cash Equivalents at the end of the reporting period		17,902
(1,309)	Movement		(2,901)

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 58.

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:

2014/15		2015/16
£'000	Reconciliation to General Fund Surplus	£'000
35	Net (Surplus) or deficit on the provision of services	(4,326)
(16)	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	11
	Adjustments to (surplus) or deficit on the provision of services for non cash movements	
(21,037)	Depreciation	(21,385)
(3,442)	Impairment & Revaluation Loss through I & E	(8,901)
(224)	Amortisation of intangible assets	(218)
(12,522)	Movement in pension liability	(11,246)
(288)	Gain/Loss on carrying amounts of assets disposed	(651)
44	Net movement in inventories charged to I & E	85
5,832	Net movement in debtors charged to I & E	10,481
(3,267)	Net movement in creditors charged to I & E	(7,734)
346	Net movement in provisions charged to I & E	(10)
(34,558)		(39,579)
	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	
20,768	Capital grants received	28,939
(1,567)	Any other items received for the financing of capital or to meet principal repayments which have been recognised through the I & E	(737)
19,201		28,202
(15,338)	Net Cash Outflow / (Inflow) from Operating Activities	(15,693)

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 £4.8m on the Council's single entity Comprehensive Income and Expenditure Statement becomes a group surplus of £4.3m. The Group Balance Sheet position has improved significantly from a net asset of £36.8m in 2014/15 to a net assets position of £84.9m in 2015/16.

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.

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.

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 306 trust funds and bequests, held for the benefit of specific functions or groups or beneficiaries, 126 of which have charitable status and have been reorganised into 6 charities registered with the Office of the Scottish Charity Regulator (OSCR).

Virement: because circumstances change, budgets need to remain flexible. Virement is the approved transfer of resources from one area of the budget to another, the creation of new budgets to reflect additional income and related expenditure or the transfer of budget from one financial year to the next.

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**DRAFT COMMON GOOD AND TRUST ANNUAL REPORT AND
ACCOUNTS 2015/16**

Report by Chief Financial Officer

AUDIT AND RISK COMMITTEE

28 June 2016

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Risk Committee with an opportunity to scrutinise the draft Scottish Borders Council Common Good and Trust Accounts for the year ended 31 March 2016 prior to its submission to the External Auditors.**
- 1.2 The financial statements comply with the all relevant legislative requirements as detailed in paragraph 4.1.
- 1.3 The draft Report and Accounts are still subject to Audit, which will commence early July. Following External Audit sign-off, the final Report and Accounts will be circulated to Council.

2 STATUS OF REPORT

- 2.1 This report is presented to enable members to consider the draft Annual Report and Accounts (the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2016

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Risk Committee:**
 - (a) **Notes the Draft Annual Report and Accounts 2015/16 for the Scottish Borders Council Common Good and Trust Funds; and**
 - (b) **Supports its submission for review by the External Auditors.**

4 BACKGROUND

- 4.1 All of the reports attached adhere to the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).
- 4.2 The Reports and Accounts included are included as appendices as follows:
- (a) Appendix 1 - Scottish Borders Council Common Good Funds
 - (b) Appendix 2 - Scottish Borders Council Education Trust
 - (c) Appendix 3 - Scottish Borders Council Welfare Trust
 - (d) Appendix 4 - Scottish Borders Council Community Enhancement Trust
 - (e) Appendix 5 - Scottish Borders Council Charitable Trusts
 - (f) Appendix 6 - Ormiston Institute for Trust
 - (g) Appendix 7 - Thomas Howden Wildlife Award Fund

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this proposal.

5.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

5.3 Equalities

It is anticipated that there are no adverse equality implications.

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

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

Approved by

**David Robertson
Chief Financial Officer**

Signature

Author(s)

Name	Designation and Contact Number
John Yallop	Senior Finance officer, 01835 82000 ext 5933

Background Papers:

Previous Minute Reference:

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

Contact us at Capital & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA
Tel: 01835 825016
email: treasuryteam@scotborders.gov.uk

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UNAUDITED

ANNUAL REPORT AND

ACCOUNTS

SCOTTISH BORDERS COUNCIL

COMMON GOOD FUNDS

Charity Registration Number: SC031538

FOR THE YEAR TO 31 MARCH 2016

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FOREWARD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

The Charity comprises of the nine Common Good Funds within Scottish Borders Council. Each holding property which it is responsible for maintaining and distribution grants to local causes which are eligible within its charitable purpose.

Innerleithen Common Good is recognised in 2015-16 with the inclusion of the Innerleithen Memorial Hall in the Common Good Property Register.

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.

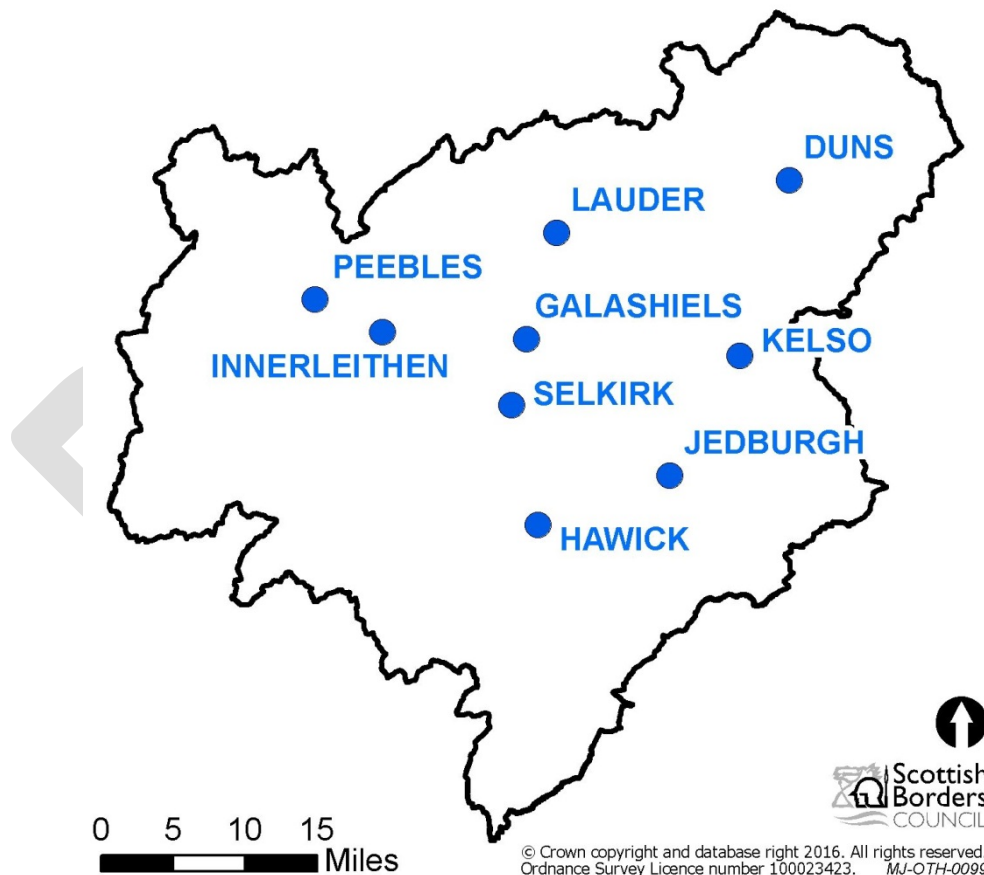
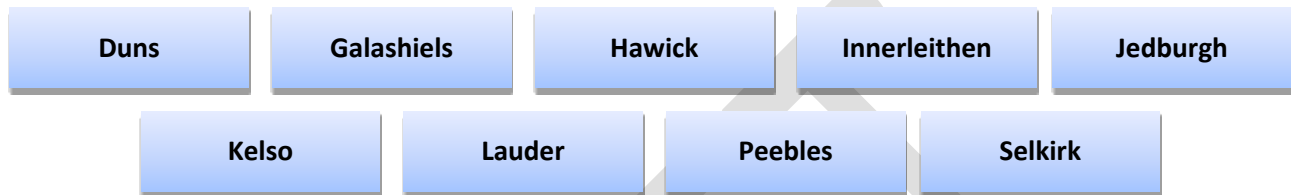
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TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2016.

Structure

a) The Charity comprises a number of separate funds for the former Burghs of:



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

Charitable Purpose

The charitable 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, Innerleithen, 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 13.

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

Plans for the Future

The Common Good Funds will continue to **maintain their heritable assets and will look to maximise their income** from any of these assets which are let commercially. Where assets are used by third parties towards the Common Good of the Burgh then rental levels may reflect this aspect of the tenants' activity.

Where funds permit, the Common Good Funds will look to make grants to organisations in their Burghs which will provide benefit to the Burgh residents, as approved by the individual Common Good Committees.

Governance and Management

Type of Governing Documents

- a) The overarching governance of the Charity is the principle of statute and common law. The statutory framework is the successive Acts from the Common Good Act 1491 through to the Local Government 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.
- c) 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:-



- c) When considering any action in connection with the Common Good Funds the Trustees have regard to the interests of the inhabitants of the area to which the Common Good formerly related.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council and the relevant ward, i.e. those wards covering former Burgh areas and in terms of the Council's Code of Governance.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

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.

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:

Sandy Aitchison	Willie Archibald	Michelle Ballantyne
Stuart Bell	Catriona Bhatia	Jim Brown
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Gordon Edgar
James A Fullerton	Graham H T Garvie	Iain Gillespie
John Greenwell	Bill Herd	Gavin Logan
Stuart Marshall	Watson McAteer (from May 2014)	John G Mitchell
Donald Moffat	Simon Mountford	Alexander J Nicol
David Parker	David Paterson	Francis Renton
Sandy Scott	Ron Smith	Rory Stewart
Jim Torrance	George Turnbull	Tom Weatherspoon
Bill White		

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

Auditor 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.

The report was signed on behalf of the Trustees by

David Parker
Trustee
Scottish Borders Council Common Good Funds
xxxxx

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 Financial Reporting Standard for Smaller Entities (FRSSE);**
- **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

2014/15 £'000		2015/16 £'000	Notes
	Incoming Resources		
	Incoming Resources from Generated Funds		
58	Voluntary Income	105	1
60	Investment Income	54	2
225	Rental Income	237	
343	Total Incoming Resources	396	
	Resources Expended		
(460)	Costs of Generating Funds: Property Costs	(396)	3
(85)	Charitable Activities	(89)	3
(48)	Governance Costs	(48)	3&4
(593)	Total Resources Expended	(533)	
(250)	Net Incoming Resources before Transfers	(137)	
324	Gross Transfers between Funds	570	5
74	Net Incoming/(Outgoing) Resources before Other Recognised Gains and Losses	433	
	Other Recognised Gains and Losses		
3,497	Gains on Revaluation Of Fixed Assets	103	
3,497	Total Other Recognised Gains and Losses	103	
3,571	Net Income/(Expenditure) for the Year	536	
79	Net Unrealised Investment Gains/(Losses)	(33)	
3,650	Net Movement in Funds	503	
	Reconciliation of Funds		
9,742	Total Funds Brought Forward	13,392	
13,392	Total Funds Carried Forward	13,895	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015			as at 31 March 2016		Notes
£'000	£'000		£'000	£'000	
		Fixed Assets			
10,622		Tangible Assets	11,022		5
2,350		Investments	2,361		6
	12,972			13,383	
	77	Long Term Loan to Third Party		60	
		Current Assets			
20		Debtors	21		7
389		Short Term Investment in SBC Loans Fund.	476		
	409			497	
		Current Liabilities			
	(66)	Creditors: Amounts falling due within 1 year		(45)	8
	13,392	Total Assets		13,895	
		The Funds of the Charity			
	(2,962)	Restricted Income Funds		(3,353)	9
	(10,430)	Revaluation Reserve		(10,542)	
	(13,392)	Total Funds		(13,895)	

All of the charity's activities are continuing.

The Accounting Policies on pages 11 and 12 and the Notes on pages 13 to 15 form part of these Financial Statements.

The unaudited accounts were issued on xx xxxx xx and the audited accounts were authorised for issue on xx xxxx xx

David Robertson CPFA
Chief Financial Officer
 Xx xxxx xx

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

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

Donations and grants are recorded as expenditure when they are approved or if approved in principle only, when final confirmation of amount is received by the applying body.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.

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

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

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 and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Voluntary Income

Restricted

2014/15 £'000		2015/16 £'000
1	Duns	1
6	Galashiels	4
30	Hawick	16
0	Innerleithen	0
1	Jedburgh	14
1	Kelso	1
6	Lauder	56
3	Peebles	8
10	Selkirk	5
58		105

2 Investment Income

2014/15 £'000		2015/16 £'000
3	Bank Interest Receivable	3
57	Income from Investment Portfolio	51
60		54

3 Resources Expended

2014/15 Total £'000		Activities Undertaken Directly £'000	Governance Costs £'000	Property Cost & Depreciation £'000	2015/16 Total £'000
26	Duns	0	2	2	4
14	Galashiels	1	2	36	39
198	Hawick	17	11	114	142
0	Innerleithen	0	0	17	17
49	Jedburgh	11	4	12	27
45	Kelso	8	1	43	52
33	Lauder	0	10	21	31
87	Peebles	37	8	52	97
141	Selkirk	15	10	99	124
593		89	48	396	533

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 2015		as at 31 March 2016		
Total		Land & Buildings at Net Book Value	Heritage Assets	Total
£'000		£'000	£'000	£'000
3	Duns	3	0	3
313	Galashiels	625	0	625
3,678	Hawick	3,635	3	3,638
0	Innerleithen	307	0	307
488	Jedburgh	477		477
883	Kelso	822	19	841
1,028	Lauder	1,016	0	1,016
916	Peebles	876	2	878
3,313	Selkirk	3,235	2	3,237
10,622		10,996	26	11,022

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

	£'000
Opening Balance at 1 April 2015	10,622
Depreciation for year	(272)
Donated Heritage Property	570
Surplus on Revaluation	103
Closing Balance at 31 March 2016	11,022

The Donated Heritage Property is primarily related to the reclassification of Council assets to the Common Good, specifically the Innerleithen Memorial Hall and Old Gala House following investigative work undertaken and approved during 2015/16.

6 Investments

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

At 31 March 2016 all investments were with the Newton Real Return Fund.

7 Debtors

2014/15 £'000		2015/16 £'000
20	Trade Debtors and Accruals	21
77	Loans to Third Parties	60
389	Due from Scottish Borders Council	476
486		557

8 Creditors: Amounts Falling Due Within One Year

2014/15 £'000		2015/16 £'000
66	Trade Creditors and Accruals	45

9 Restricted Funds

Balance at 31 March 2015 £'000		Balance at 31 March 2016 £'000
22	Duns	17
31	Galashiels	186
614	Hawick	636
0	Innerleithen	135
1,039	Jedburgh	1,047
298	Kelso	291
243	Lauder	291
493	Peebles	499
222	Selkirk	251
2,962		3,353

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.

11 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all financial obligations in respect of properties owned by the charity, where relevant, and

- all support and governance costs are covered.

At 31 March 2016, the reserves of the Common Good Funds amounted to:

Restricted Income Funds - £3,353m
Revaluation Reserves - £10,542m

DRAFT

INDEPENDENT AUDITOR'S REPORT
to the trustees of Scottish Borders Council Common Good Funds and

ADDITIONAL INFORMATION

Contact Details

For further information on the Common Good Funds, please contact:

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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UNAUDITED

**ANNUAL REPORT AND
ACCOUNTS**

**SCOTTISH BORDERS COUNCIL
EDUCATION TRUST**

Charity Registration Number: SC044762

FOR THE YEAR TO 31 MARCH 2016

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FOREWARD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Education Trust in 2014/15. Investigative work continued in 2015/16 to identify further "Educational" trusts which could be integrated into this Charity and it is planned that further integrations will take place in 2016/17.

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"

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2016.

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

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 a donation to one eligible beneficiary during the year to 31 March 2016.

Plans for the Future

The fund will be promoted and continue to grant awards to recipients who may be eligible for disbursement of funds under the eligibility restrictions of the funds.

Governance and Management

Type of Governing Documents

- a) A Trust Deed has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have reflected this in the following governance codes. The codes covering the governance of the Charity comprise of the following



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Funding and Reserves

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

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

Reference and Administrative Information

Charity Name	SBC Education 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:

Sandy Aitchison	Willie Archibald	Michelle Ballantyne
Stuart Bell	Catriona Bhatia	Jim Brown
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Gordon Edgar
James A Fullerton	Graham H T Garvie	Iain Gillespie
John Greenwell	Bill Herd	Gavin Logan
Stuart Marshall	Watson McAteer (from May 2014)	John G Mitchell
Donald Moffat	Simon Mountford	Alexander J Nicol
David Parker	David Paterson	Francis Renton
Sandy Scott	Ron Smith	Rory Stewart
Jim Torrance	George Turnbull	Tom Weatherspoon
Bill White		

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

Auditor 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 Education Trust.

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

The report was signed on behalf of the Trustees by

David Parker
Trustee
Scottish Borders Council Education Trust
Xx xxxx xxxx

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 Financial Reporting Standard for Smaller Entities (FRSSE);**
- **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

2014/15 £		2015/16 £	Notes
	Incoming Resources		
	Incoming Resources from Generated Funds		
119	Interest and Investment Income	119	
1,619	Other Incoming Resources		
1,738	Total Incoming Resources		
	Resources Expended		
(110)	Charitable Activities	(42)	1
(110)	Total Resources Expended	(42)	
1,628	Net Incoming Resources before Transfers	77	
	Other Recognised Gains and Losses		
56	Gains/(Loss) on Investment Assets	(24)	
1,684	Net Movement in Funds	53	
	Reconciliation of Funds		
0	Total Funds Brought Forward	1,684	
1,684	Total Funds Carried Forward	1,737	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015			as at 31 March 2016		Notes
£	£		£	£	
1,616	1,616	Fixed Assets	1,592	1,592	3
		Investments			
68	1,684	Current Assets		145	4
		Short Term Investment in SBC Loans Fund.			
	1,684	Current Liabilities			
		Creditors: Amounts falling due within 1 year			
		Net Current Assets			
	1,684	Total Assets		1,737	
(1,684)		The Funds of the Charity	(1,737)		
		Restricted Income Funds			
	(1,684)	Total Assets		(1,737)	

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on page 12 form part of these Financial Statements.

The unaudited accounts were issued on xx xxx xxx and the audited accounts were authorised for issue on xx xxx xxx.

David Robertson CPFA
Chief Financial Officer
 Xx xxx xxx

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

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

- Donations and grants are recorded as expenditure when they are approved or if approved in principle only, when final confirmation of amount is received by the applying body.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

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 and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Charitable Activities

The charity has made a donation to one eligible beneficiary during the year to 31 March 2016.

2 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity.

3 Investments

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

4 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

5 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all support and governance costs are covered

At 31 March 2016, the reserves of the SBC Education Trust amounted to:

- Restricted Income Funds - £1,737

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and

DRAFT

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Education 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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UNAUDITED

**ANNUAL REPORT AND
ACCOUNTS**

**SCOTTISH BORDERS COUNCIL
WELFARE TRUST**

Charity Registration Number: SC044765

FOR THE YEAR TO 31 MARCH 2016

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FOREWORD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Welfare Trust 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 2015/16 further work on the reorganisation of charity funds continued and will continue in 2016/17 and is expected to result in additional resources being transferred into this Charitable Trust.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2016.

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.

Charitable Purpose

The charitable purposes are:

The prevention or relief of poverty

The relief of those in need by reason of age, ill-health, disability, financial hardship or other disadvantage or

The advancement of health, including the advancement of education in health

By among other things, the payment of grants and/or loans to such charities or other organisations or to such individuals who are deserving of benefit as the Trustees shall, in their sole and unfettered discretion, select as suitable recipients of such benefit, to be applied by such recipients for the charitable purposes of either the prevention or relief of poverty or the relief of those in need or the advancement of health, as appropriate.

Summary of the Main Activities

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. No funds have been disbursed during 2015/16

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.

Governance and Management

Type of Governing Documents

- a) A Trust Deed has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have reflected this in the following governance codes. The codes covering the governance of the Charity comprise of the following



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Funding and Reserves

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

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

Reference and Administrative Information

Charity Name	SBC Welfare Trust
Charity registration number	SC044765
Business Address	Council HQ Newtown St Boswells Melrose Scottish Borders

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

Sandy Aitchison	Willie Archibald	Michelle Ballantyne
Stuart Bell	Catriona Bhatia	Jim Brown
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Gordon Edgar
James A Fullerton	Graham H T Garvie	Iain Gillespie
John Greenwell	Bill Herd	Gavin Logan
Stuart Marshall	Watson McAteer (from May 2014)	John G Mitchell
Donald Moffat	Simon Mountford	Alexander J Nicol
David Parker	David Paterson	Francis Renton
Sandy Scott	Ron Smith	Rory Stewart
Jim Torrance	George Turnbull	Tom Weatherspoon
Bill White		

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

Auditor 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 Welfare Fund.

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

The report was signed on behalf of the Trustees by

David Parker
Trustee
Scottish Borders Council Common Good Funds
Xx xxx xxxx

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 Financial Reporting Standard for Smaller Entities (FRSSE);**
- **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

2014/15 £		2015/16 £	Notes
	Incoming Resources		
	Incoming Resources from Generated Funds		
2,561	Interest and Investment Income	2,815	1
99,202	Other Incoming Resources		
101,763	Total Incoming Resources		
	Resources Expended		
0	Charitable Activities		2
0	Total Resources Expended	0	
101,763	Net Incoming Resources before Transfers	2,815	
	Other Recognised Gains and Losses		
3,028	Gains/(Loss) on Investment Assets	(1,678)	
104,791	Net Movement in Funds	1,137	
	Reconciliation of Funds		
0	Total Funds Brought Forward	104,791	
104,791	Total Funds Carried Forward	105,634	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015			as at 31 March 2016		Notes
£	£		£	£	
97,050	97,050	Fixed Assets			
		Investments	98,898		4
8,072		Current Assets		98,898	
		Short Term Investment in SBC Loans Fund.		6,737	5
(331)		Current Liabilities			
		Creditors: Amounts falling due within 1 year			
	7,741	Net Current Assets			
	104,791	Total Assets		105,634	
(104,791)		The Funds of the Charity			
		Restricted Income Funds	(105,634)		6
	(104,791)	Total Assets		(105,634)	

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 xx xxxx xx and the audited accounts were authorised for issue on xx xxxx xx.

David Robertson CPFA
Chief Financial Officer
Xx xxxx xx

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

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

- Donations and grants are recorded as expenditure when they are approved.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

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 and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2014/15 £		2015/16 £
121	Bank Interest Receivable	95
2,440	Income from Investment Portfolio	2,720
2,561		2,815

2 Charitable Activities

There were no charitable activities during 2015/16.

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.

5 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

6 Restricted Funds

The funds held with the Charity are restricted by area, purpose or both. The restrictions for each are shown in the table below. Expenditure in the year relates to net loss on Newton investments made in the year. It is included here to reconcile the restricted balances. 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.

2014/15 Balance £	Restricted by Area £	Restricted by Purpose	Income £	Expenditure £	2015/16 Balance £
55,960	Mid & East Berwickshire	a&b	1,496	833	56,623
4,485	Galashiels & District	a&b	98	64	4,519
8,555	Leaderdale & Melrose	a&b	462	119	8,898
19,740	Jedburgh & District	a&b	413	278	19,875
8,066	Hawick/Denholm/Hermitage	a&b	166	112	8,120
712	Tweeddale East & West	Unrestricted	15	10	717
7,273	Tweeddale East & West	a&b	165	263	7,175
104,791			2,815	1,678	105,634

7 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all support and governance costs are covered

At 31 March 2016, the reserves of the SBC Welfare Trust amounted to:

- Restricted Income Funds - £105,634.

DRAFT

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and

DRAFT

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

UNAUDITED

ANNUAL REPORT AND

ACCOUNTS

SCOTTISH BORDERS COUNCIL

COMMUNITY ENHANCEMENT TRUST

Charity Registration Number: SC044764

FOR THE YEAR TO 31 MARCH 2016

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FOREWORD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Community Enhancement 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 2015/16 further work on the reorganisation of charity funds continued and it is planned that further resources will be transferred into this Trust in 2016/17.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2016.

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.

Charitable Purpose

The charitable purposes are:
The advancement of Community Development
The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets
The provision of recreational facilities, or the organisation of recreational activities are primarily intended, or
The advancement of environmental protection or improvement

Summary of the Main Activities

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. No funds have been disbursed during 2015/16.

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.

Governance and Management

Type of Governing Documents

- a) A Trust Deed has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have reflected this in the following governance codes. The codes covering the governance of the Charity comprise of the following



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

Funding and Reserves

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

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

Reference and Administrative Information

Charity Name	SBC Community Enhancement Trust
Charity registration number	SC044764
Business Address	Council HQ Newtown St Boswells Melrose Scottish Borders

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

Sandy Aitchison	Willie Archibald	Michelle Ballantyne
Stuart Bell	Catriona Bhatia	Jim Brown
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Gordon Edgar
James A Fullerton	Graham H T Garvie	Iain Gillespie
John Greenwell	Bill Herd	Gavin Logan
Stuart Marshall	Watson McAteer (from May 2014)	John G Mitchell
Donald Moffat	Simon Mountford	Alexander J Nicol
David Parker	David Paterson	Francis Renton
Sandy Scott	Ron Smith	Rory Stewart
Jim Torrance	George Turnbull	Tom Weatherspoon
Bill White		

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

Auditor 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 Community Enhancement Trust.

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

The report was signed on behalf of the Trustees by

David Parker
Trustee
Scottish Borders Council Community Enhancement Trust
Xx xxxx xxxx

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 Financial Reporting Standard for Smaller Entities (FRSSE);**
- **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

2014/15 £		2015/16 £	Notes
	Incoming Resources		
	Incoming Resources from Generated Funds		
2,063	Interest and Investment Income	2,419	1
72,465	Other Incoming Resources		
74,528	Total Incoming Resources		
	Resources Expended		
(3,500)	Charitable Activities	0	2
(3,500)	Total Resources Expended	0	
71,028	Net Incoming Resources before Transfers	2,419	
	Other Recognised Gains and Losses		
3,130	Gains/(Loss) on Investment Assets	(1,097)	
74,158	Net Movement in Funds	1,322	
	Reconciliation of Funds		
0	Total Funds Brought Forward	74,158	
74,158	Total Funds Carried Forward	75,480	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015			as at 31 March 2016		Notes
£	£		£	£	
78,410	78,410	Fixed Assets			
		Investments	73,824		4
		Current Assets		73,824	
		Short Term Investment in SBC Loans Fund.		1,655	5
(4,252)		Current Liabilities			
		Creditors: Amounts falling due within 1 year			
	(4,252)	Net Current Assets			
	74,158	Total Assets		75,480	
(74,158)		The Funds of the Charity			
		Restricted Income Funds	(75,480)		6
	(74,158)	Total Assets		(75,480)	

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 and 13 form part of these Financial Statements.

The unaudited accounts were issued on xx xxx xxx and the audited accounts were authorised for issue on xx xxx xxx.

David Robertson CPFA
Chief Financial Officer
 Xx xxxx xxx

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

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

- Donations and grants are recorded as expenditure when they are approved or if approved in principle only, when final confirmation of amount is received by the applying body.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

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 and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2014/15		2015/16	
£		£	
79	Bank Interest Receivable	26	
1,984	Income from Investment Portfolio	2,393	
2,063		2,419	

2 Charitable Activities

There were no charitable activities during 2015/16.

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.

5 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

6 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all support and governance costs are covered

At 31 March 2016, the reserves of the SBC Community Enhancement Trust amounted to:

Restricted Income Funds - £75,480.

7 Restricted Funds

The funds held with the Charity are restricted by area, purpose or both. Expenditure includes grants paid out but also the net unrealised loss on Newton investment during the year. These balances are required to be included in order to reconcile opening and closing balances. They were included in income last year when there was a net unrealised gain on investment.

The restrictions for each are shown in the table below. The purpose of these funds are:

- a) Advancement of Community Development
- b) The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets
- c) The provision of recreational facilities, or the organisation of recreational activities are primarily intended, or
- d) Advancement of environmental protection or improvement

2014/15 Balance	Restricted by Area	Restricted by Purpose	Income	Expenditure	2015/16 Balance
£	£		£	£	£
1,470	Borders Wide	a	45	21	1,494
12,870	Berwickshire	Unrestricted	270	181	12,959
31,075	Berwickshire	b	716	485	31,306
513	Berwickshire	Henderson Park & War Mem.	12	8	517
1,589	Cheviot	Allerley Park	33	22	1,600
1,088	Selkirkshire	Unrestricted	23	15	1,096
18,766	Teviot & Liddiesdale	b	1,176	268	19,674
6,787	Teviot & Liddiesdale	a&b	143	96	6,834
74,158			2,419	1,097	75,480

INDEPENDENT AUDITOR'S REPORT
to the trustees of Scottish Borders Council Common Good Funds and

DRAFT

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

UNAUDITED

**ANNUAL REPORT AND
ACCOUNTS**

**SCOTTISH BORDERS COUNCIL
CHARITABLE TRUSTS**

Charity Registration Number: SC043896

FOR THE YEAR TO 31 MARCH 2016

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FOREWORD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

In late 2012/13 the charitable status of 76 various funds was formally recognised under a single Charity registration.

Work commenced in 2014/15 to re-organise a number of the other registered Charities managed by Scottish Borders Council into three new Charities covering Welfare, Community Enhancement and Education. The next phase of the work of re-organising the remaining funds held within this fund was started in 2015/16 and is planned to be completed in 2016/17 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 2016.

Structure

The Charity comprises some 76 varied funds previously considered charities by the Inland Revenue. Their charitable status was regulated at the end of 2012/13 by OSCR.

Charitable Purpose

The charitable purpose of this charity is to hold funds for each trust, Endowment or bequest comprising the Charity. Each of these funds have their own purpose related to the general purpose of the prevention or relief of poverty by reason of age, ill-health, disability, financial hardship or other disadvantage.

Summary of the Main Activities

A number of the funds have made donations to eligible beneficiaries during the year to 31 March 2016 totalling £18,628 including contributions through area based Education Trusts for Further Education including overseas study and travel as well as music and dance expenses.

Plans for the Future

Work will continue to re-organise these funds during 2016/17, in consultation with OSC to enable the funds to be more easily used for their charitable purposes.

Governance and Management

Type of Governing Documents

- a) Since this Charity was formed as a holding charity for some 76 individual funds there is no overall governance document. A review is currently being undertaken into each of the constituent funds and this involves looking for governance and founding documentation.
- b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have reflected this in the following its governance codes. The codes covering the governance of the Charity comprise of the following



- c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- d) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

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.

Reference and Administrative Information

Charity Name	SBC 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	Francis Renton
Sandy Scott	Ron Smith	Rory Stewart
Jim Torrance	George Turnbull	Tom Weatherspoon
Bill White		

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

Auditor 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 Charitable Trusts.

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

The report was signed on behalf of the Trustees by

David Parker
Trustee
Scottish Borders Council Common Good Funds
Xx xxxx xx

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 Financial Reporting Standard for Smaller Entities (FRSSE);**
- **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

2014/15 £		2015/16 £	Notes
	Incoming Resources		
	Incoming Resources from Generated Funds		
209	Voluntary Income	178	1
30,329	Interest and Investment Income	28,620	2
30,538	Total Incoming Resources	28,799	
	Resources Expended		
(15,738)	Charitable Activities	(18,628)	3
(15,738)	Total Resources Expended	(18,628)	
14,800	Net Incoming Resources other Recognised Gains and Losses	10,171	
	Other Recognised Gains and Losses		
19,546	Gains/(Loss) on Investment Assets	(8,262)	
34,346	Net Movement in Funds	1,909	
	Reconciliation of Funds		
557,687	Total Funds Brought Forward	592,033	
592,033	Total Funds Carried Forward	593,942	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015			as at 31 March 2016		Notes
£	£		£	£	
565,449	565,449	Fixed Assets			
		Investments	559,237		5
26,584	26,584	Current Assets		559,237	
		Short Term Investment in SBC Loans Fund.	34,705		6
		Net Current Assets		34,705	
	592,033	Total Assets		593,942	
(592,033)		The Funds of the Charity			
		Restricted Income Funds	(593,942)		7
	(592,033)	Total Assets		(593,942)	

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 to 15 form part of these Financial Statements.

The unaudited accounts were issued on xx xxx xxx and the audited accounts were authorised for issue on xx xxx xxx.

David Robertson CPFA
Chief Financial Officer
Xx xxx xxx

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

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

- Donations and grants are recorded as expenditure when they are approved.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

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 and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Voluntary Income

Restricted

The voluntary income is from a number of unregistered funds, managed by Scottish Borders Council, which grant their annual income to the Jedburgh Coal Fund.

2 Investment Income

2014/15		2015/16	
£		£	
50	Bank Interest Receivable	102	
30,279	Income from Investment Portfolio	28,518	
30,329		28,620	

3 Charitable Activities

The charitable activities during 2015/16 are shown in note 7 by individual fund within the charity. All expenditure incurred was for direct charitable activities.

4 Governance Costs

The fee for the external audit of the charity is charged against Scottish Borders Council General Fund. There were no governance costs paid directly by the charity.

5 Investments

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

6 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

7 Restricted Funds

2014/15 Balance	Fund	Income	Expenditure	2015/16 Balance
£	£	£	£	£
881	Waugh Bequest	121	134	868
1,548	Dalrymple's Mortification	32	22	1,558
4,652	Raith's Mortification	98	67	4,683
24,808	William Forrester's Bequest	536	899	24,445
54,047	Robert Watson Fund	1,167	1,958	53,256
1,636	Kenneth Cochrane Library Fund	34	23	1,647
1,116	Ex Provost Mercer's Bequest No1	24	40	1,100
2,475	G D Gibson's Bequest	53	90	2,438
16,175	Clive Craig-Brown Bequest	338	228	16,285
2,313	Thomas B Williamson Bequest	48	33	2,328
10,065	George D Gibson's Bequest	210	142	10,133
11,992	T J S Roberts Trust	250	169	12,073
6,325	Sir John Robert's Bequest	136	89	6,372
413	Mrs Adams Bequest	8	5	416
342	Joshua Goodfellow's Bequest	7	5	344
2,759	Mrs Hobkirk's Fund	58	39	2,778
306	Wm Brown's Bequest	7	11	302
432	Alex Grieves Bequest (1)	9	16	425
296	Alex Grieves Bequest (2)	6	11	291
244	John Hunter's Bequest	5	9	240
98	John Murray's Bequest	2	4	96
213	Ex Provost Mrs Laidlaw's Benifaction	5	8	210
1,272	Robert Meggit's Bequest	27	46	1,253
85	James West Brown's Bequest	2	3	84
1,913	Henry Laidlaw Trust	41	69	1,885
1,561	John Herbertson Bequest	34	57	1,538
178	Mrs M Cheetham Bequest	4	6	176
10,700	Jedburgh Coal Fund	396	146	10,950
1,779	Edgar Bequest	37	25	1,791
3,089	Elliot Mortification	65	44	3,110
542	McKinley Trust	11	8	545
24,976	R D Forman's Bequest	522	352	25,146
3,140	Ewan Trust	66	44	3,162
482	William Laidlaw Memorial Fund	10	28	464
267	Longformacus Public Park	6	10	263
63	Coldstream War Memorial	1	2	62
25	Lands at Calfward	1	0	26
102,570	Dunlop Bequest	2,144	1,445	103,269
5,451	Ayton War Memorial Fund	116	1695	3,872
634	I Wallace Bequest	36	46	624
301,863	Sub-total carried to next page	6,673	8,028	300,508

Scottish Borders Council Charitable Trusts
Unaudited Annual Report and Financial Statements For The Year To 31 March 2016

3,874	Marjoribanks Bequest	83	56	3,901
266	Peebles Public Library	6	10	262
412	Brown Bequest	9	6	415
6,056	Berwickshire Educational Trust	545	83	6,518
304	C W Dunnet Award	22	29	297
1,254	Jane Grieve Endowment	71	16	1,309
1,654	Jean Kincaird Grieve Endowment	87	22	1,719
2,831	J Purves Bequest	163	241	2,753
555	Hans D Langmack Prize Fund	36	51	540
894	Coldstream Guards Prize	69	91	872
1,211	Special Air Service Reg. Fund	78	110	1,179
4,672	F W Dobson VC	314	435	4,551
98,348	Roxburghshire Educational Trust	8,962	9,884	97,426
849	Andrew, Agnes & John Kyle	67	87	829
21,770	Miss A T Waldie Trust	659	635	21,794
18,722	J A S Henderson Memorial Scholarship	1,903	209	20,416
17,581	Sir Walter Leitch Scholarship	1,900	210	19,271
894	Mrs Clelland Memorial Prize	46	12	928
22,116	Peeblesshire Educational Trust	2,048	2,491	21,673
775	Mr & Mrs W F Johnstone Fund	36	10	801
2,786	Col. Jem Richard Prize Fund	151	37	2,900
1,307	Dr Milne Memorial Fund	68	17	1,358
905	James Robertson Trust	54	(33)	992
608	John Jamieson Prize Fund	31	8	631
1,186	Walter Geddes Prize Fund	59	16	1,229
15,964	Geoffrey Simpson Bequest	1,457	1,812	15,609
11,623	Selkirkshire Educational Trust	1,127	1,350	11,400
805	Mary Dickson Prize Fund	53	74	784
2,851	Murray Medal Fund	178	253	2,776
734	Campbell Calderhead Prize	43	10	767
566	Kennedy Medal Fund	33	7	592
23,471	Simpson Dalwhinny Fund	1,304	312	24,463
16,718	Ferguson Dalwhinny Fund	349	235	16,832
1,495	Jedburgh Public Library Fund	31	21	1,505
608	Kelso Library Book Fund	13	9	612
3,505	Selkirk Library Fund	73	49	3,529
592,033		28,801	26,893	593,942

Income detailed above includes dividends received from the Newton Investment and interest earned on short term investment in SBC loans fund.

Expenditure includes grants paid out but also the net unrealised loss on Newton investment during the year. These balances are required to be included in order to reconcile opening and closing balances. They were included in income last year when there was a net unrealised gain on investment.

8 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all support and governance costs are covered

At 31 March 2016, the reserves of the SBC Charitable Trust Funds amounted to:

Restricted Income Funds - £593,942

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INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and

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ADDITIONAL INFORMATION

Contact Details

For further information on the SBC 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

UNAUDITED

**ANNUAL REPORT AND
ACCOUNTS**

**SCOTTISH BORDERS COUNCIL
ORMISTON TRUST FOR INSTITUTE**

Charity Registration Number: SC019162

FOR THE YEAR TO 31 MARCH 2016

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FOREWARD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

Due to the Ormiston Institute containing heritable assets it has not been included new Charities recently established by Scottish Borders Council following a reorganisation of a number of trusts, in consultation with OSCR. The Ormiston Institute remains a single registered charity.

TRUSTEES' ANNUAL REPORT

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2016.

Structure

The Charity is a single standalone charity for the Ormiston Institute in Melrose and is registered with OSCR.

Charitable Purpose

The fund is to be used to provide and maintain the property known as the Ormiston Institute in Melrose to provide recreational and educational rooms in the town for the inhabitants of the Town and district.

Summary of the Main Activities

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

The funds generated

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.

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.
- a) 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:-



- c) When considering any action in connection with the Charity the Trustees must to act in the interest of the Charity Funds.
- b) The financial statements comply with the Financial Reporting Standard for Smaller Entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council and the relevant ward, i.e. those wards covering former Burgh areas and in terms of the Council's Code of Governance.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

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 £3,911 at market value as at 31/3/16.

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

Reference and Administrative Information

Charity Name	Scottish Borders Council Common Good Funds
Charity registration number	SC019162
Business Address	Council HQ Newtown St Boswells Melrose Scottish Borders

Trustees

The Trustees of this charity are the duly elected members of the Leaderdale and Melrose ward of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

Iain Gillespie	Jim Torrance	David Parker
----------------	--------------	--------------

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

Chief Financial 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 Ormiston Trust for Institute.

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

The report was signed on behalf of the Trustees by

David Parker
Trustee
Scottish Borders Council Common Good Funds
xx

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 Financial reporting Standard for Smaller Entities (FRSSE);**
- **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

2014/15 £		2015/16 £	Notes
	Incoming Resources		
	Incoming Resources from Generated Funds		
102	Investment Income	120	1
102	Total Incoming Resources	120	
	Resources Expended		
(25,500)	Property Costs (Depreciation)	(25,500)	3
(102)	Charitable Activities	(120)	2
(25,602)	Total Resources Expended	(25,620)	
(25,500)	Net Incoming/(Outgoing) Resources before Other Recognised Gains and Losses	(25,500)	
	Other Recognised Gains and Losses		
102,835	Gains on Revaluation Of Fixed Assets for Charity's Use	0	
136	Gains/(Loss) on Investment Assets	(58)	
77,471	Net Movement in Funds	(25,558)	
	Reconciliation of Funds		
193,669	Total Funds Brought Forward	271,140	
271,140	Total Funds Carried Forward	245,582	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015			as at 31 March 2016		Notes
£	£		£	£	
		Fixed Assets			
266,867		Tangible Assets	241,369		4
3,969		Investments	3,911		5
	270,836			245,278	
		Current Assets			
304		Short Term Investment in SBC Loans Fund.	305		
	304			305	
		Current Liabilities			
	0	Creditors: Amounts falling due within 1 year		0	
	271,140	Total Assets		245,582	
		The Funds of the Charity			
	(271,140)	Restricted Income Funds		(245,582)	
	(271,140)	Total Funds		(245,582)	

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on pages 12 and 13 form part of these Financial Statements.

The unaudited accounts were issued on xx and the audited accounts were authorised for issue on xx

David Robertson CPFA
Chief Financial Officer
 xxxx

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

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

- Donations and grants are recorded as expenditure when they are approved.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

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 and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2014/15 £000		2015/16 £'000
1	Bank Interest Receivable	1
101	Income from Investment Portfolio	119
112		120

2 Charitable Activities during 2015/16

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 is funded from the Restricted Funds. This is not a cash transaction..

4 Tangible Fixed Assets

The charity has a single fixed asset of the Ormiston Institute building in Melrose.

The movement in the value of Tangible Fixed Assets has been driven solely by the annual depreciation charge in 2015/16 as follows:

	£'000
Opening Balance at 1 April 2015	266,867
Depreciation for year	(25,500)
Closing Balance at 31 March 2016	241,367

5 Investments

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

At 31 March 2016 all investments were with the Newton Real Return Fund.

6 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all support and governance costs are covered

At 31 March 2016, the reserves of the Ormiston Trust for Institute amounted to:

Restricted Income Funds - £245,582

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INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and

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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

UNAUDITED

**ANNUAL REPORT AND
ACCOUNTS**

**SCOTTISH BORDERS COUNCIL
THOMAS HOWDEN WILDLIFE AWARD FUND**

Charity Registration Number: SC015647

FOR THE YEAR TO 31 MARCH 2016

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FOREWARD

The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) now requires that full audited accounts for this Charity are prepared.

In late 2012/13 the reorganisation of 34 registered charities was formally recognised by OSCR and this work continued in 2015/16 with full approval of OSCR. The Thomas Howden Wildlife Fund was not included in this initial reorganisation but work will be under taken with OSCR during 2016/17 to reorganise this fund into the SBC Educational Fund.

TRUSTEES' ANNUAL REPORT FOREWARD

The Trustees present their Annual Report and the audited Financial Statements for the year ended 31 March 2016.

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Charitable Purpose

The bequest is to be used to make provision for 2 prizes at Peebles High School for wildlife educational activities with Trustees discretion not to award in any year.

Summary of the Main Activities

The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. No funds have been disbursed during 2015/16.

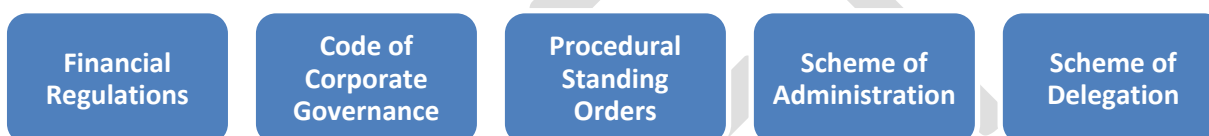
Plans for the Future

In 2015/16 work commenced to reorganise the Thomas Howden Wildlife Award Fund into the SBC Education Trust which was established in the initial reorganisation of charities. With OSCR's approval, it is planned that this reorganisation will be completed during 2016/17.

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:-



- d) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.
- e) The financial statements comply with the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

There is no recruitment process. Appointment is by virtue of election to the Council.

Financial Review

These financial statements have been prepared in accordance with current statutory requirements and the charity's governing document.

The applications of the Funds' are detailed in the Notes to the Accounts.

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.

Reference and Administrative Information

Charity Name	Thomas Howden Wildlife Award Fund
Charity registration number	SC015647
Business Address	Council HQ Newtown St Boswells Melrose Scottish Borders

Trustees

The Trustees of this charity are the duly elected members of Scottish Borders Council (the Council), a local authority constituted under the Local Government (Scotland) Act 1994. These are:

Sandy Aitchison	Willie Archibald	Michelle Ballantyne
Stuart Bell	Catriona Bhatia	Jim Brown
Joan Campbell	Michael J Cook	Keith Cockburn
Alastair Cranston	Vicky M Davidson	Gordon Edgar
James A Fullerton	Graham H T Garvie	Iain Gillespie
John Greenwell	Bill Herd	Gavin Logan
Stuart Marshall	Watson McAteer (from May 2014)	John G Mitchell
Donald Moffat	Simon Mountford	Alexander J Nicol
David Parker	David Paterson	Francis Renton
Sandy Scott	Ron Smith	Rory Stewart
Jim Torrance	George Turnbull	Tom Weatherspoon
Bill White		

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

Auditor 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 Thomas Howden Wildlife Award Fund

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

The report was signed on behalf of the Trustees by

David Parker
Trustee
Thomas Howden Wildlife Award Fund
xxx

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 Financial Reporting Standard for Smaller Entities (FRSSE);**
- **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

2014/15 £		2015/16 £	Notes
	Incoming Resources		
	Incoming Resources from Generated Funds		
211	Interest and Investment Income	206	1
211	Total Incoming Resources		
	Resources Expended		
0	Charitable Activities		2
0	Total Resources Expended	0	
211	Net Incoming Resources before Transfers	206	
	Other Recognised Gains and Losses		
127	Gains/(Loss) on Investment Assets	(54)	
338	Net Movement in Funds	151	
	Reconciliation of Funds		
3,731	Total Funds Brought Forward	4,069	
4,069	Total Funds Carried Forward	4,221	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015			as at 31 March 2016		Notes
£	£		£	£	
3,695	3,695	Fixed Assets			
		Investments	3,641		4
		Current Assets		3,641	
	374	Short Term Investment in SBC Loans Fund.		580	5
	374	Net Current Assets			
	4,069	Total Assets		4,221	
(4,069)		The Funds of the Charity			
		Restricted Income Funds	(4,221)		9
	(4,069)	Total Assets		(4,221)	

All of the charity's activities are continuing.

The Accounting Policies on pages 10 and 11 and the Notes on page 12 form part of these Financial Statements.

The unaudited accounts were issued on xxx and the audited accounts were authorised for issue on xxx

David Robertson CPFA
 Chief Financial Officer
 xxx

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation and Assessment of Going Concern

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The accounts have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant note(s) to these accounts.

Accruals of Income and Expenditure

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

- Donations and grants are recorded as expenditure when they are approved.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include the designated funds where the trustees, at their discretion, have created a fund for a specific purpose

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed.

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 and Depreciation

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Land is held at current valuation and is not depreciated. All tangible fixed assets are subject to revaluation every five years, with the last revaluation being undertaken in 2014/15. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Investments

Investments are initially recognised at their transaction value and subsequently measured at their market value as at the balance sheet date using closing quoted market price.

Unrealised gains and losses represent the difference between market value at the beginning and the end of the financial year, or if purchases in the year the difference between cost and market value at the end of the financial year. Realised gains and losses represent the difference between the proceeds and cost.

Cash and Short Term Investments

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Short Term Investments are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Short Term Investments comprise of call deposits with the Council.

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2014/15		2015/16	
£		£	
1	Bank Interest Receivable	2	
210	Income from Investment Portfolio	204	
211		206	

2 Charitable Activities

There were no charitable activities during 2015/16.

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.

5 Short Term Investments in SBC Loans Fund

All surplus cash invested on behalf of the charity with Scottish Borders Council

6 Reserves Policy

The charity has considered the reserves required and have taken into account its current and future liabilities, ensuring reserves will be maintained at a level sufficient to respond to:

- any and all applications for grants
- all support and governance costs are covered

At 31 March 2016, the reserves of the Thomas Howden Wildlife Award amounted to:

Restricted Income Funds - £4,221.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and

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ADDITIONAL INFORMATION

Contact Details

For further information on the Thomas Howden Wildlife Award Fund, 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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unaudited annual report and financial statements

Bridge Homes LLP

For the year ended 31 March 2016

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MEMBERS' ANNUAL REPORT

The Members present their Annual Report and the Financial Statements for the year ended 31 March 2016.

Reference and Administrative Information

Company Name	Bridge Homes LLP
Company Registration Number	SO304775
Registered Office	Council HQ Newtown St Boswells Melrose Scottish Borders TD6 0SA

Designated Members

The members who held office during the year and to the date of these financial statements were as follows:

Scottish Borders Council

Scottish Future Trust Investments Ltd

The members who held office at the date of approval of this members report confirm that, so far as they are each aware, there is no relevant audit information of which Bridge Homes' auditor is unaware; and each member has taken all the steps they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that Bridge Homes' auditor is aware of that information.

Auditor	KPMG LLP 191 West George Street Glasgow G2 2LJ
----------------	---

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore remain in office.

Professional support

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

Principal Activity

The principal activity of Bridge Homes during the year was investment in mid-market residential property for domestic rental to meet an identified social need within the Scottish Borders.

Policy with respect to members' drawings and subscription and repayments of amounts subscribed or otherwise contributed by members

1. Cash received by Bridge Homes, excluding property disposal proceeds, will be allocated firstly to pay any operating costs, secondly in payment of any accrued interest charges on loan advances, thirdly to reimburse any amounts paid out under the Scottish Government guarantee (see below) and fourthly to establish and maintain the required Reserve Account balance. Any residual balances after making the above payments will be held to apply in early repayment of loan advances. Such balances will not be distributed without the unanimous approval of members and where any payment under the Facility Agreement (between Bridge Homes and Scottish Borders Council) has not been made in accordance with its terms.
2. Cash received from property disposals will be allocated firstly to reimburse any amounts paid out under the Scottish Government guarantee, secondly to pay any operating costs relating to the property disposed, thirdly in payment of any accrued interest charges on loan advances, fourthly to establish and maintain the Reserve Account balance, fifthly to repay any loan principal, sixth to pay any residual disposal proceeds to Scottish Borders Council and finally, following disposal of the final property, to repay the initial capital.

Business Review

Background

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

Bridge Homes is 99.999% owned by the Council and is financed under a Facility Agreement with the Council to borrow up to £18.8m along with a £3.3m contribution from the Councils' Affordable Housing Investment Budget.

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

SFT monitors the projects as a result of the Scottish Government guarantee for the loans.

Governance

The Bridge Homes Board has been established with 2 Council Senior Officers and 1 SFT Senior Officer on the Board. The Board meets quarterly and the financial viability of projects require to be signed off by all 3 Directors.

A Project Board, supported through the Council, has been established and meets regularly to oversee the development and delivery of the initiative. A Project Team, consisting of officers from the Council, has also been established to identify properties, secure property management service providers, develop systems and deliver the project.

Activity Summary

In the year to 31 March 2016, as a result of a Council-led procurement and selection process, Orchard and Shipman have been appointed Bridge Homes Managing Agents. Their first substantive task was to undertake the marketing and letting of 13 x 2 bedroom houses at Standalane Way, Peebles. These were the only new property acquisitions during 2015/16 and brought the Bridge Homes portfolio up to 23 properties. All properties have been rented out.

Contracts are now in place with 3 developers and construction work is in progress on sites at Innerleithen, Kelso and Denholm. These consist of 6, 8 and 8 properties respectively. All of which are due to complete in 2016/17. An offer to purchase 10 properties in Cardrona remains in place. A deposit has been paid against 7 properties to be built in Lilliesleaf where work is expected to start in May 2016, with an anticipated completion and handover later in 2016/17. Additional development opportunities continue to be pursued, with 6 sites being monitored which could provide around 35 properties, plus a further 20 sites being classified as "open" which could provide an estimated 147 properties.

This report was signed on behalf of the Members by

David Robertson CPFA
Designated Member
Scottish Borders Council
30 June 2016

STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE MEMBERS' REPORT AND FINANCIAL STATEMENTS

The members are responsible for preparing the Members' report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial period. Under that law the members have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that year. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with those regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2016

	2014/15 £	2015/16 £	Notes
Turnover	11,581	81,472	1
Cost of Sales	(3,502)	(17,205)	2
Gross Profit	8,079	64,267	
Administrative Expenses	(10,610)	(34,451)	3
Operating Profit/(Loss)	(2,531)	29,816	
Interest Payable & Similar Expenses	(9,584)	(37,663)	4
Profit/(Loss) For The Financial Year Available For Discretionary Division Among Members	(12,115)	(7,847)	5

The LLP's turnover and expenses all relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 March 2016

	2014/15 £	2015/16 £
Profit/(Loss) For The Financial Year	(12,115)	(7,847)
Total Recognised Gains/(Losses) For The Financial Year	(12,115)	(7,847)

BALANCE SHEET as at 31 March 2016

	March 2015	as at 31 March 2016		Notes
	£	£	£	
Fixed Assets				
Property, Plant and Equipment	1,289,780	2,667,388		6
		2,667,388		
Current Assets				
Debtors	7,583	99,589		7
Cash at Bank	4,086	15,020		
	11,669	114,609		
Creditors				
Amounts falling due within 1 year	(23,782)	(29,638)		8
Net Current Assets/(Liabilities)	(12,113)	84,972		
Net Assets/(Liabilities) attributable to Members	1,277,667	2,752,360		
Represented By:				
Loans and Other Debts due to Members	986,380	2,343,320		9
Members' Other Interests				
Capital Account	303,402	429,002		10
Profit and Loss Reserve	(12,115)	(19,962)		
		409,040		
Total Members' Interests	1,277,667	2,752,360		

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 30 June 2016 and are signed on their behalf by:

David Robertson CPFA
 Designated Member
 Scottish Borders Council
 30 June 2016

CASH FLOW for the year ended 31 March 2016

	2014/15 £	2015/16 £
Reconciliation of Profit/(Loss) to		
Net Cash Flow from Operating Activities		
Profit/(Loss) for the Financial Year	(12,115)	(7,847)
Adjustments to Profit/Loss for Non Cash Movements		21,380
Initial Members' Capital	2	0
(Increase)/Decrease in Debtors	(7,583)	(92,006)
Increase/(Decrease) in Creditors due within 1 year	23,782	5,856
Net Cash Inflow/(Outflow) from Operating Activities	4,086	(72,617)

	£	£
Cash Flow Statement		
Net Cash Inflow/(Outflow) from Operating Activities	4,086	(72,617)
Investing Activities		
Purchase of investment property	(1,289,780)	(1,398,989)
Capital received	303,400	125,600
Net Cash Inflow/(Outflow) from Investing Activities	(986,380)	(1,273,389)
Financing Activities		
Cash received from loans and other borrowing	986,380	1,356,940
Net Cash Inflow/(Outflow) from Financing Activities	986,380	1,356,940
Increase / (Decrease) in Cash	4,086	10,934
Movement in Cash in Period	4,086	10,934

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of Preparation

The financial statements have been prepared under historic cost accounting rules modified for the revaluation of certain fixed assets and in accordance with the Financial Reporting Standards for Smaller Entities (effective April 2008) and the Statement of Recommended Practice: Accounting by Limited Liability Partnerships (effective January 2010) issued by the CCAB (Consultative Committee of Accountancy Bodies).

Accruals of Income and Expenditure

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

- Fees, charges and rents due from tenants are accounted for as income at the date the relevant service is provided.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Interest payable on capital advances is accounted for based on the applicable 4^{1/2} - 5 year PWLB (Public Works Loan Board) fixed interest rate applicable at the date the borrowing was initially incurred.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.
- Income and expenditure are credited and debited to the revenue account, unless they properly represent capital receipts or capital expenditure.

Turnover

Turnover represents invoiced rental income from tenanted investment properties. This rental income is exempt from value added tax.

Tangible Fixed Assets

Tangible fixed assets, with a value greater than £1,000, having a value to the business greater than one year, other than those acquired for the purpose of specific projects, are capitalised.

Property, Plant and Equipment is shown at most recent valuation. Any aggregate surplus or deficit arising from changes in market value is transferred to a revaluation reserve.

Under the Revaluation Policy, Property, Plant and Equipment are subject to revaluation every year. Depreciation is charged on all tangible fixed assets other than land at a rate which will reduce the current value of the asset to its residual value over the remaining effective life of the asset.

Cash and Liquid Assets

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either convertible into known amounts of cash at or close to their carrying values. Liquid resources comprise term deposits of less than one year.

Inventories

Any inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Support Services

The costs of support services provided by Scottish Borders Council are charged to Bridge Homes LLP in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP).

NOTES TO THE FINANCIAL STATEMENTS

1 Turnover

	2014/15 £	2015/16 £
Rental Income	4,121	72,540
Revenue Grant	7,460	8,932
	11,581	81,472

2 Cost of Sales

	2014/15 £	2015/16 £
Management Charges	2,565	15,650
Insurance	457	1,427
Utilities	480	128
	3,502	17,205

3 Administrative Expenses

	2014/15 £	2015/16 £
Accountancy and Legal	4,046	4,997
Professional Fees	0	800
Revaluations	0	21,380
Audit	3,000	3,935
Estates and Housing	3,415	3,030
Miscellaneous	149	309
	10,610	34,451

4 Interest Payable & Similar Charges

	2014/15 £	2015/16 £
Bank Charges	14	42
Interest Payable to Local Authority	9,570	37,621
	9,584	37,663

5 Members' Interests

	2014/15 £	2015/16 £
Scottish Borders Council	12,115	7,847
Scottish Futures Trust Investments Ltd	-	-
	12,115	7,847

6 Property, Plant and Equipment

	2014/15 £	2015/16 £
Additions at Cost	1,289,780	1,398,989
Revaluations	0	(21,380)
NBV at 31 March	1,289,780	2,667,388

Following a review of Accounting Standards issued under Financial Reporting Standards for Smaller Entities, it has been agreed that properties previously designated as Investment Properties should now be categorised as Property, Plant and Equipment.

7 Debtors

	2014/15 £	2015/16 £
Unpaid Rental Income	121	5,550
Grant for Central Support Costs	7,460	0
Other Debtors	2	94,039
	7,583	99,589

8 Creditors: Amounts Falling Due Within One Year

	2014/15 £	2015/16 £
Management Charges	2,565	433
Professional Fees	0	800
Insurance	457	0
Utilities	480	0
Audit	3,000	3,000
Accountancy	2,254	0
Legal Fees	1,792	0
Miscellaneous	3,664	0
Interest Payable to Local Authority	9,570	25,405
	23,782	29,638

9 Loans & Other Debts Due To Members

	2014/15 £	2015/16 £
Loan from Local Authority	986,380	1,356,940

10 Members' Capital

	2014/15 £	2015/16 £
Initial Capital - Scottish Borders Council	1	
Initial Capital – Scottish Futures Trust Investments Ltd	1	
Capital Grant - Scottish Borders Council	303,400	125,600
	303,402	125,600

11 Reserves

	Members Capital (Classified As Equity) £	Profit & Loss Reserve £	Loans & Other Debts Due To/From Members £	Total £
Balance at 1 April 2015	303,402	(12,115)	986,380	1,277,667
Profit/(Loss) For The Year Available for Discretionary Division Among Members		(7,847)		(7,847)
Loan Funding Provided By Members			1,356,940	1,356,940
Capital Introduced By Members	125,600			125,600
Balance at 31 March 2016	429,002	(19,962)	2,343,320	2,752,360

12 Related Party Transactions

Throughout the year Bridge Homes was controlled by the members. During the year, Bridge Homes entered into the following transactions with Scottish Borders Council:

	Transaction	Debtor/ (Creditor) At 31 March 2016
	£	£
Loan	1,356,940	(1,356,940)
Capital Funding	125,600	-
Revenue Grant	8,932	-
Service Charge	8,932	-
Loan Interest	37,621	(25,405)
	1,538,024	(1,382,345)

13 Ultimate Controlling Party

The Bridge Homes is controlled by the Designated Members as detailed on page 2.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIDGE HOMES LLP

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CONTACT INFORMATION

For further information on Bridge Homes LLP, please contact

Lynn Mirley	Telephone: 01835 – 825016
Corporate Finance Manager	E-mail: lmirley@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

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DRAFT SB CARES ANNUAL REPORT AND ACCOUNTS 2015/16

Report by SB Cares Finance and Commercial Director

AUDIT AND RISK COMMITTEE

28 June 2016

1 PURPOSE AND SUMMARY

- 1.1 This report provides the Audit and Risk Committee with an opportunity to scrutinise the draft SB Cares Accounts for the year ended 31 March 2016.**
- 1.2 The financial statements comply with the all relevant legislative requirements as detailed in paragraph 4.1.
- 1.3 The draft Report and Accounts were Audited in June 2016 by KPMG and recommended minor changes have been incorporated. A final review of the report and accounts will be completed by KPMG in August 2016. The final Report and Accounts will be circulated to Council.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Audit and Risk Committee:**
 - (a) Notes the Draft Annual Report and Accounts 2015/16 for SB Cares LLP; and**
 - (b) Notes the External Auditors have completed an initial audit of SB Cares Annual Report and Accounts**

3 BACKGROUND

- 3.1 All the reports have been prepared in accordance with applicable accounting standards under the historical cost accounting rules and in accordance with the Statement of Recommended Practice 'accounting by limited liability partnerships' ("**LLP SORP**").
- 3.2 The External Auditors KPMG carried out the audit of SB Cares accounts in June 2016 to provide support to the new organisation to compile its first set of draft reports and accounts. Minor recommended changes by KPMG have been incorporated in the reports being provided for scrutiny by the Audit and Risk Committee. A final review of the Report and Annual accounts will be completed by KPMG in August 2016 where any final adjustments will be agreed before signed accounts are submitted to Scottish Borders Council.
- 3.3 The Reports and Accounts included are included as appendices as follows:
- (a) Appendix 1 - Scottish Borders Supports LLP
 - (b) Appendix 2 - Scottish Borders Cares LLP

4 IMPLICATIONS

- 4.1 **Financial**
There are no financial implications relating to this proposal.
- 4.2 **Risk and Mitigations**
This report is part of the governance framework to manage the operation of SB Cares.
- 4.3 **Equalities**
It is anticipated that there are no adverse equality implications.
- 4.4 **Acting Sustainably**
There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability.
- 4.5 **Carbon Management**
There are no direct carbon emissions impacts as a result of this report.
- 4.6 **Rural Proofing**
It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.
- 4.7 **Changes to Scheme of Administration or Scheme of Delegation**
No changes are required as a result of the proposals contained in this report.

5 CONSULTATION

- 5.1 SB Cares Board of Management, External Auditors KPMG and SBC Chief Financial Officer have been consulted on the Annual Report and their comments have been incorporated in the draft annual report

Approved by

Debbie Collins

SB Cares Finance and Commercial Director

Signature

Author(s)

Name	Designation and Contact Number
Karen Paterson	Finance Manager 01835 826700
Debbie Collins	Finance and Commercial Director 01835 826700

Background Papers:

Previous Minute Reference:

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below.

Contact us at SB Cares, Bristol Building, Newtown St Boswells, Melrose, TD6 0SA

Tel: 01835 826700

email: info@sbcare.co.uk

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Scottish Borders Supports LLP (DRAFT)

Members' report and financial statements

Registered number SO305176

For the period ended 31 March 2016

(Incorporated on 15th December 2014)

Contents

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Members' report

The members present their annual report and audited financial statements for the period ended 31 March 2016.

Principal Activity

The principal activity of Scottish Borders Supports LLP (SB Supports) is the provision of Adult Social Care services.

These financial statements represent the results of the period of trading from 1 April 2015 until 31 March 2016.

The partnership employs 10 staff (10 full time equivalents) in 10 positions.

Designated Members

SB Supports LLP had two members during the period, Scottish Borders Council and SBC Nominees Limited, both of whom are designated members.

Business Review

Governance

The Board of Management is subject to the provision of the Members Agreement and neither the LLP nor the Board of Management shall make decisions in respect of the reserved matters set out in the agreement.

The Board of Management consists of:

- a) The Managing Director
- b) The Finance and Commercial Director
- c) The Operations Director
- d) The Chair

In addition up to five additional persons can be assumed to the Board of Management, where the persons have skills, knowledge or experience deemed to be useful to the Board of Management in fulfilling its obligations and functions to the LLP and its members. There are currently two additional persons on the Board of Management.

The meetings of the Board of Management are held on a monthly basis. The LLP meets with Scottish Borders Council quarterly at the Council's Limited Liability Partnership Strategic Governance Group Committee. In addition the Chief Executive of Scottish Borders Council may at any time invite the LLP Officers to attend a meeting of the Council's Corporate Management Team to discuss such matters related to the Members Agreement and the Services of the Business.

The overall business structure remained consistent in 2015/16.

Members' report *(continued)*

Financial Results for the Period

In the period ended 31 March 2016, SB Supports LLP generated a loss of £25k. No profit distribution was made to members for the period. Net current assets were (£53k) and total net assets attributable to members were (£25k). SB Supports LLP's financial statements have been prepared on a going concern basis.

Overall SB Supports performed as expected in its original Business Case for its first year of trading in being able to deliver a contribution to Scottish Borders Council of £480k.

Risk Management

SB Supports LLP recognises the importance of the management of corporate risk and applies appropriate corporate governance to ensure it is successfully monitored and managed.

The overall pressure on public finances whilst there is increasing demand for services continues to be the dominant risk to the LLP. Budget pressures and service reduction within Scottish Borders Council has an effect as the LLP provides key services to this main client group. SB Supports continues to monitor the change in business operation and address the mitigation of risk proactively.

Cash flow management procedures are in place to ensure that resources are managed effectively. This management of resources has ensured the company has never been required to use a bank overdraft facility.

SB Supports has adopted Scottish Borders Council's (SBC's) corporate risk policy to embed risk management into its business practices. During 2015 SB Supports Senior Management attended SBC's refreshed corporate risk management training course in recognition that risk management is part of their job. SB Supports is currently developing its risk register to reflect risks and mitigations associated with the delivery of its approved Business Plan. The risk register will be regularly reviewed by its Senior Management Team and Board of Management as part of its performance monitoring processes. Scottish Borders Council's Internal Audit function through a Service Level Agreement carries out regular audits of business functions and areas of risk whose findings are reported to the Finance and Commercial Director and the Board of Management.

The business is subject to further enhanced governance procedures and it reports to the Council's LLP Strategic Governance Group.

Employees & Stakeholders

SB Supports LLP is an Equal Opportunities employer and is committed to eliminating discrimination, victimisation, bullying and harassment amongst our workforce. Our Equal Opportunities Policy and Equality and Diversity Programme are in place to ensure our staff will be treated fairly and with dignity and respect at all times.

Members' report (*continued*)

Our commitment to equality is supported by a legal duty to provide all services and employment opportunities fairly and to adhere to all relevant codes of practice. We welcome our responsibilities as an employer, as a provider of services, and value the legislation that supports our policy commitments to equality and fairness.

Consultation with stakeholders is a key element in ensuring that continuous improvement in service provision is achieved and maintained. SB Supports LLP is responsive to the needs of its communities, citizens, customers and other stakeholders, and its plans and priorities are based on such an understanding. Involving key stakeholders in the decision-making process will continue to help to identify future policy and service priorities, and improvements that are required.

Transactions with Members

No remuneration of members occurred during the period. The members' share in the profit or loss for the period is accounted for as an allocation of profits with unallocated profits and losses included within 'other reserves'. SB Supports LLP transacts with one of its members, Scottish Borders Council. These transactions are covered by Service Provision Agreements agreed on 1st April 2015.

Activity Summary

SB Supports successfully launched its business on the 1st April 2015 to provide Adult Social Care across the Borders.

The Board of Management have focused on the delivery of the objectives set out in the approved business plan during the first year:

- to maintain and improve high quality services
- establish its self as provider of last resort ensuring the Council continues to meet its statutory obligations
- to deliver efficient and effective services reducing budget running cost of services to the Council
- create the ability to provide and sell a range of services to people who do not meet the Council's current eligibility criteria
- identifying and deliver recurring procurement savings through a new procurement strategy for the business

In the first year SB Supports successfully:

- reduced the running cost of its services by £480k
- increased its Home Care service by 1200 hours per week
- launched its online ability equipment service
- invested in the development of selling a range of service

Members' report (*continued*)

SB Supports continues to develop services in accordance with its Business Plan in 2016/2017 with the focus on:

- reducing the running cost of services for the Council
- working with partners to develop innovate outcome-focused services which meet current and future demand supporting the needs of social care and health clients
- developing cost effective services to compete in the commercial market
- continuing to be the Council's provider of last resort

Disclosure of information to auditor

The members who held office at the date of approval of this members' report confirm that, so far as they are aware, there is no relevant audit information of which the Partnership's auditor is unaware; and each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be appointed and KPMG LLP will therefore be in office.

The financial statements were authorised for issue on xx September 2016.

Approved by the members and signed on xx September 2016 by

Debbie Collins

For and on behalf of

Scottish Borders Supports LLP

Designated member

Registered Office:-

SB Cares

Bristol Building

Newtown St Boswells

TD60SA

Statement of members' responsibilities in respect of the Members' Report and the financial statements

The members are responsible for preparing the Members' Report and the LLP financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial period . Under that law the members have elected to prepare the LLP financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the members of Scottish Borders Supports LLP

We have audited the financial statements of SB Supports LLP for the period ended 31 March 2016 set out on pages **10** to **17**. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the members of the limited liability partnership (LLP), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 7, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2016 and of its profit for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Independent auditor's report to the members of Scottish Borders Supports LLP (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

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

Xx September 2016

Profit and Loss Account

For the period ended 31 March 2016

	<i>Note</i>	period ended 31 March 2016 £000
Turnover	2	17,521
Cost of sales		<u>(17,037)</u>
Gross profit	3	484
Administrative expenses		<u>(516)</u>
Operating loss	4	(32)
Interest receivable and similar income	6	<u>7</u>
Loss on ordinary activities before and after taxation being profit for the financial period before members' remuneration and profit shares		<u>(25)</u>
Loss for the financial period available for discretionary division among members		<u><u>(25)</u></u>

All of the LLP's operations are classed as continuing.

Statement of Total Recognised Gains and Losses

For the period ended 31 March 2016

	<i>Note</i>
	Period ended 31 March 2016 £000
Loss for the year available for discretionary division among members	(25)
Total recognised gains and losses for the period	<u><u>(25)</u></u>

The accompanying notes form integral part of these financial statements.

Balance Sheet

at 31 March 2016

	<i>Note</i>	Period ended 31 March 2016 £000
Fixed assets	8	<u>27</u>
Current assets		
Stock	9	31
Debtors	10	455
Cash at bank and in hand		<u>1,408</u>
		1,894
Creditors: amounts falling due within one year	11	<u>(1,946)</u>
Net current liabilities		
(53)		
Total assets less current liabilities		<u>(25)</u>
Net liabilities		<u>(25)</u>
Members' other interests		
Members' capital		-
Other reserves		<u>(25)</u>
Total other reserves		<u>(25)</u>

The accompanying notes form integral part of these financial statements.

These financial statements were approved by the members on xx September 2016 and were signed on its behalf by:

Debbie Collins

For and on behalf of
Scottish Borders Supports LLP
Designated member

Company registered number: **SO305176**

Reconciliation of Movements in Members' Funds

For the period ended 31 March 2016

	Members' Capital		Other Reserves	Total other Reserves	Total Members' Interest
	£000		£000	£000	£000
Balance at 1 April 2015	-	-	-	-	-
Loss for the period available for discretionary division among members	-	-	(25)	(25)	(25)
Balance at 31 March 2016	<u>-</u>	<u>-</u>	<u>(25)</u>	<u>(25)</u>	<u>(25)</u>

The accompanying notes form integral part of the financial statements

Notes *(forming part of the financial statements)*

1 - Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Limited Liability Partnership's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules and in accordance with the Statement of Recommended Practice 'accounting by limited liability partnerships' ("**LLP SORP**").

The LLP's financial statements are fully consolidated in the group financial statements prepared and published by Scottish Borders Council. This entitles the LLP to use the exemption from the preparation of a cash flow statement as stated in International Accounting Standard 1 'cash flow statements' ("**IAS1**").

As the LLP is a wholly owned subsidiary of Scottish Borders Council, the LLP has taken advantage of the exemption contained in International Accounting Standard 24 'related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group as related parties.

Going concern

The LLP's business activities, together with the factors likely to affect its future development, performance and position, are set out in the members' report on page 3. The members have a reasonable expectation that despite there being a negative net worth at the end of first year the LLP has adequate resources to continue in operational existence for the foreseeable future with a 5 year service provision agreement in place for Adult Social Cares service from Scottish Borders Council. Thus the members continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Members' remuneration and allocation of profits

Members are not remunerated by the LLP. A member's share in the profit or loss for the accounting period is accounted for as an allocation of profits. Unallocated profits and losses are included within 'other reserves'.

Members' capital

The capital requirements of the LLP are determined from time to time by the members. No interest is paid on capital.

Value added tax

The LLP is registered for VAT purposes. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Fixed assets

In accordance with parent company guidelines, assets purchased in excess of the de minimis level of £1,000.00 or grouped £5000 are included in the balance sheet as fixed assets. In line with the accounting policies of the parent organisation, depreciation is applied in the period from 1 April based on asset valuations as at 31 March of the previous financial period.

Notes (continued)

1 Accounting policies (continued)

Depreciation is charged on a straight line basis and the useful life of an asset is deemed to be:

I.T. Systems 3 years

Plant and Equipment 5 years

Assets disposed of, or taken out of use will be fully written off in period of disposal or removal from use.

Taxation

Taxation on all partnership profits is solely the liability of individual members. Consequently neither taxation nor related deferred taxation arising in the LLP are accounted for in these financial statements.

Income recognition

Income is recognised in the accounting period to which it relates. Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. Income received in advance is included in the balance sheet within creditors: amounts falling due within one year.

Stock

Stock is valued at the lower of cost and net realisable value in line with the requirements of International Accounting Standard 2 "Inventories" ("IAS2")

Leases

Operating lease rentals are charged to the Profit & Loss Account on a straight line basis over the period of the lease.

2 Turnover

Turnover represents the invoiced value of goods and services supplied under the principal activities of the LLP.

Notes (continued)

5 Staff numbers and costs

The average Full Time Equivalent number of persons employed by the LLP during the period, analysed by category, was as follows:

	Number of employees (FTE)
	2016
Administration	<u>10</u>

Staff costs for the above persons were:

	2016
	£000
Wages and salaries	331
Social security costs	30
Pension costs	<u>44</u>
	<u>405</u>

6 Other interest receivable and similar income

	2016
	£000
Other interest receivable	<u>7</u>
	<u>7</u>

7 Particulars of members

The number of members of the Limited Liability Partnership for the period was two. No remuneration was paid to either member.

Notes (continued)

8 Fixed assets

	IT Systems	Plant & Equipment	Total	
	£000	£000	£000	£000
Cost				
At 1 April 2015	-	-	-	-
AdditionDisposals	<u>15</u>	<u>12</u>	<u>0</u>	<u>27</u>
At 31 March 2016	<u>15</u>	<u>12</u>	<u>-</u>	<u>27</u>
Depreciation				
At 1 April 2015	-	-	-	-
Charge for the year	-	-	-	-
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 1 April 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value				
At 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2016	<u>15</u>	<u>12</u>	<u>0</u>	<u>27</u>

9 Stock

2016

£000

Raw materials and consumables

31

10 Debtors

2016

£000

Trade debtors

39

Amounts owed by group undertakings

249

Prepayments and accrued income

167

455

Notes (continued)

11 Creditors: amounts falling due within one year

	2016
	£000
Trade creditors	38
Amounts owed to group undertakings	78
Other creditors	541
Value added tax	839
Accruals and deferred income	<u>440</u>
	<u>1,936</u>

12 Post Balance Sheet Events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements.

13 Ultimate parent organisation

The LLP's ultimate parent undertaking is Scottish Borders Council, one of its designated members, as this is the largest group into which the results of the LLP are consolidated. The consolidated group financial statements of Scottish Borders Council may be obtained from its registered office at the Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

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Scottish Borders Cares LLP (DRAFT)

Members' report and financial statements

Registered number SO305156

For the period ended 31 March 2016

(Incorporated on 18th December 2014)

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Members' report

The members present their annual report and audited financial statements for the year ended 31 March 2016.

Principal Activity

The principal activity of Scottish Borders Cares LLP (SB Cares) is the provision of Adult Social Care services.

These financial statements represent the results of the year of trading from 1 April 2015 until 31 March 2016.

The partnership employs **866** staff (**479** full time equivalents) in **196** positions with a number of staff having more than one role.

Designated Members

SB Cares LLP had two members during the period, Scottish Borders Council and SBC Nominees Limited, both of whom are designated members.

Business Review

Business Structure

The Board of Management is subject to the provision of the Members Agreement and neither the LLP nor the Board of Management shall make decisions in respect of the reserved matters set out in the agreement.

The Board of Management is employed by Scottish Borders Supports LLP and consists of:

- a) The Managing Director
- b) The Finance and Commercial Director
- c) The Operations Director
- d) The Chair

In addition up to five additional persons can be assumed to the Board of Management, where the persons have skills, knowledge or experience deemed to be useful to the Board of Management in fulfilling its obligations and functions to the LLP and its members. There are currently two additional persons on the Board of Management.

The meetings of the Board of Management are held on a monthly basis. The LLP meets with Scottish Borders Council quarterly at the Council's Limited Liability Partnership Strategic Governance Group Committee. In addition the Chief Executive of Scottish Borders Council may at any time invite the LLP Officers to attend a meeting of the Council's Corporate Management Team to discuss such matters related to the Members Agreement and the Services of the Business.

The overall business structure remained consistent in 2015/16.

Members' report (*continued*)

Financial Results for the Period

In the year ended 31 March 2016, SB Cares LLP generated a loss of £1.294m. This result includes the adjustments required in respect of **International Accounting Standards 19 (IAS 19)** 'retirement benefits' totalling £0.997m. The IAS 19 adjustment is met through a transfer between the pension reserve and other reserves within the Reconciliation of Movement on Members' Funds.

The underlying, pre-**IAS 19** results of SB Cares LLP generated a loss of £297k for the year after accounting for the annual leave accrual for the first year of £297k.

Overall SB Cares performed as expected for its first year of trading delivering services through its contract with Scottish Borders Supports LLP.

SB Cares LLP's financial statements have been prepared on a going concern basis.

Risk Management

SB Cares LLP recognises the importance of the management of corporate risk and applies appropriate corporate governance to ensure it is successfully monitored and managed.

The overall pressure on public finances continues to be the dominant risk to the LLP. Budget pressures and service reduction within Scottish Borders Council has an effect as the LLP provides key services to this main client grouping. SB Cares continues to monitor the change in business operation and address the mitigation of risk proactively.

Cash flow management procedures are in place to ensure that resources are managed effectively.

SB Cares has adopted Scottish Borders Council's (SBC's) corporate risk policy to embed risk management into its business practices. During 2015 SB Cares Senior Management attended SBC's refreshed corporate risk management training course in recognition that risk management is part of their job. SB Cares is currently developing its risk register to reflect risks and mitigations associated with the delivery of its approved Business Plan. The risk register will be regularly reviewed by its Senior Management Team and Board of Management as part of its performance monitoring processes. Scottish Borders Council's Internal Audit function through a Service Level Agreement carries out regular audits of business functions and areas of risk whose findings are reported to the Finance and Commercial Director and the Board of Management.

The business is subject to further enhanced governance procedures and it reports to the Council's LLP Strategic Governance Group.

Members' report *(continued)*

Employees & Stakeholders

SB Cares LLP is an Equal Opportunities employer and is committed to eliminating discrimination, victimisation, bullying and harassment amongst our workforce. Our Equal Opportunities Policy and Equality and Diversity Programme are in place to ensure our staff will be treated fairly and with dignity and respect at all times.

Our commitment to equality is supported by a legal duty to provide all services and employment opportunities fairly and to adhere to all relevant codes of practice. We welcome our responsibilities as an employer, as a provider of services, and value the legislation that supports our policy commitments to equality and fairness.

Consultation with stakeholders is a key element in ensuring that continuous improvement in service provision is achieved and maintained. SB Cares LLP is responsive to the needs of its communities, citizens, customers and other stakeholders, and its plans and priorities are based on such an understanding. Involving key stakeholders in the decision-making process will continue to help to identify future policy and service priorities, and improvements that are required.

SB Cares LLP utilises a number of methods to communicate with staff. These include:
Staff Newsletters -regularly keep staff updated with company information and news.
Staff Briefings - face to face performance meetings with staff.
Staff Roadshows - face to face information sharing sessions with frontline staff.

Transactions with Members

No remuneration of members occurred during the period. The members' share in the profit or loss for the period is accounted for as an allocation of profits with unallocated profits and losses included within 'other reserves'. SB Cares LLP transacts with SB Supports LLP not with Members.

These transactions are covered by Service Provision Agreements agreed on 1st April 2015.

Members' report (*continued*)

Activity Summary

SB Cares successfully launched its business on the 1st April 2015 transferring over 800 staff from Scottish Borders Council for the provision of Adult Social Care across the Borders.

The Board of Management have focused on the delivery of the objectives set out in the approved business plan during the first year:

- to maintain and improve high quality services
- establish its self as provider of last resort ensuring the Council continued to meet its statutory obligations
- to deliver efficient and effective services reducing budget running cost of services to the Council
- create the ability to provide and sell a range of services to people who do not meet the Council's current eligibility criteria.
- identifying and deliver recurring procurement savings through a new procurement strategy for the business

In the first year SB Cares through its service provision agreement with Scottish Borders Supports LLP supported the delivery of the approved business plan to:

- reduced the running cost of its services by £480k
- increased its Home Care service by 1200 hours per week
- launched its online ability equipment service
- invested in the development of selling a range of services

SB Cares continues to develop services in accordance with its Business Plan in 2016/2017 with the focus on:

- reducing the running cost of services for the Council
- Working with partners to develop innovate outcome-focused services which meet current and future demand supporting the needs of social care and health clients
- developing cost effective services to compete in the commercial market
- continuing to be the Council's provider of last resort

Disclosure of information to auditor

The members who held office at the date of approval of this members' report confirm that, so far as they are aware, there is no relevant audit information of which the Partnership's auditor is unaware; and each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

The financial statements were authorised for issue on xx September 2016.

Approved by the members and signed on xx September 2016 by

Debbie Collins

For and on behalf of

Scottish Borders Cares LLP

Designated member

Registered Office:

Bristol Building

Newtown St Boswells

TD6 0SA

Statement of members' responsibilities in respect of the Members' Report and the financial statements

The members are responsible for preparing the Members' Report and the LLP financial statements in accordance with applicable law and regulations. The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the LLP financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the members of Scottish Borders Cares LLP

We have audited the financial statements of Scottish Borders Cares LLP for the year ended 31 March 2016 set out on pages **11** to **20**. 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 8, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Independent auditor's report to the members of Scottish Borders Cares LLP (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Hugh Harvie

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court

20 Castle Terrace Edinburgh

Edinburgh

EH1 2EG

Xx September 2016

Profit and Loss Account

For the period ended 31 March 2016

	<i>Note</i>	Period ended 31 March 2016 £000
Turnover	2	14,547
Cost of sales		<u>(14,812)</u>
Gross profit	3	(265)
Administrative expenses		<u>(32)</u>
Loss on ordinary activities before and after taxation being profit for the financial period before members' remuneration and profit shares		<u>(297)</u>
Loss for the financial period available for discretionary division among members		<u>(297)</u>

All of the LLP's operations are classed as continuing.

Statement of Total Recognised Gains and Losses

For the period ended 31 March 2016

	<i>Note</i>	Period ended 31 March 2016 £000
Loss for the period available for discretionary division among members		(297)
Actuarial Gain	8	203
Expenses recognised in the profit and loss account	8	<u>(1,200)</u>
Total recognised gains and losses for the period		<u>(1,294)</u>

The accompanying notes form integral part of the financial statements.

Balance Sheet

at 31 March 2016

	<i>Note</i>	Period ended 31 March 2016 £000
Current assets		
Debtors	6	372
Cash at bank and in hand		<u>3</u>
		375
Creditors: amounts falling due within one year	7	<u>(672)</u>
Net current liabilities (297)		
Total assets less current liabilities		<u>(297)</u>
Provisions for liabilities – Pension and similar obligations	8	(997)
Net liabilities		<u>(1,294)</u>
Members' other interests		
Members' capital		-
Pension reserve		(997)
Other reserves		<u>(297)</u>
Total other reserves		<u>(1,294)</u>

The accompanying notes form integral part of the financial statements.

These financial statements were approved by the members on xx September 2016 and were signed on its behalf by:

Debbie Collins

For and on behalf of

Scottish Borders Cares LLP

Designated member

Company registered number: **SO305156**

Reconciliation of Movements in Members' Funds

For the period ended 31 March 2016

	Members' Capital	Pension Reserve	Other Reserves	Total other Reserves	Total Members' Interest
	£000	£000	£000	£000	£000
Balance at 1 April 2015	-	-	-	-	-
Loss for the year available for discretionary division among members	0	0	(297)	(297)	(297)
Actuarial losses on the pension scheme	0	(1,200)	0	(1,200)	(1,200)
Transfers (from)/to the pension reserve -	<u>0</u>	<u>203</u>	<u>0</u>	<u>203</u>	<u>203</u>
Balance at 31 March 2016	<u>0</u>	<u>(997)</u>	<u>(297)</u>	<u>(1,294)</u>	<u>(1,294)</u>

The accompanying notes form integral part of the financial statements

Notes *(forming part of the financial statements)*

1 - Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Limited Liability Partnership's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules and in accordance with the Statement of Recommended Practice 'accounting by limited liability partnerships' ("**LLP SORP**").

The LLP's financial statements are fully consolidated in the group financial statements prepared and published by Scottish Borders Council. This entitles the LLP to use the exemption from the preparation of a cash flow statement as stated in **International Accounting Standard 1 ("IAS1")**.

As the LLP is a wholly owned subsidiary of Scottish Borders Council, the LLP has taken advantage of the exemption contained in **International Accounting Standard 24 'related parties' ("IAS24")** and has therefore not disclosed transactions or balances with entities which form part of the group as related parties.

Going concern

The LLP's business activities, together with the factors likely to affect its future development, performance and position, are set out in the members' report on page 3. The members have a reasonable expectation that despite there being a significant negative net worth at the end of first year the LLP has adequate resources to continue in operational existence for the foreseeable future with a 5 year service provision agreement in place with Scottish Borders Supports LLP and a guarantee for SB Cares pension liability by Scottish Borders Council. Thus Members continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Members' remuneration and allocation of profits

Members are not remunerated by the LLP. A member's share in the profit or loss for the accounting period is accounted for as an allocation of profits. Unallocated profits and losses are included within 'other reserves'.

Members' capital

The capital requirements of the LLP are determined from time to time by the members. No interest is paid on capital.

Value added tax

The LLP is registered for VAT purposes. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Notes (continued)

1 Accounting policies (continued)

Taxation

Taxation on all partnership profits is solely the liability of individual members. Consequently neither taxation nor related deferred taxation arising in the LLP are accounted for in these financial statements.

Income recognition

Income is recognised in the accounting period to which it relates. Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. Income received in advance is included in the balance sheet within creditors: amounts falling due within one year.

Retirement benefits

All existing and new members of staff have the option of joining the SB Cares Pension Fund ("the Fund"). The Fund is a defined benefit pension scheme, providing benefits based on final pensionable pay, which is contracted out of the State Earnings-Related Pension Fund. Assets and liabilities of the Fund are held separately from those of the LLP. Fund assets are measured using market values. For quoted securities the current bid price is taken as market value. Fund liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Leases

Operating lease rentals are charged to the Profit & Loss Account on a straight line basis over the period of the lease.

Notes (continued)

2 Turnover

Turnover represents the invoiced value of goods and services supplied under the principal activities of the LLP.

3 Gross profit

The activities of the LLP during the year are broken down as follows:

	£000s
Turnover	14,547
Profit/ (loss)	(265)
Operating (loss)	(297)
Other interest receivable	0
Profit/(Loss)	<u>(297)</u>

4 Staff numbers and costs

The average Full Time Equivalent number of persons employed by the LLP during the period, analysed by category, was as follows:

	Number of employees (FTE)
	2016
Front Line Services	<u>479</u>

Staff costs for the above persons were:

	2016
	£000
Wages and salaries	11,705
Social security costs	652
Pension costs	<u>1,629</u>
	<u>13,986</u>

Notes (continued)

5 Particulars of members

The number of members of the Limited Liability Partnership for the period was two. No remuneration was paid to either member.

6 Debtors	2016
	£000
Trade debtors	3
Amounts owed by group undertakings	337
Prepayments and accrued income	6
Other debtors	<u>26</u>
	<u>372</u>

7 Creditors: amounts falling due within one year

	2016
	£000
Other taxation and social security	347
Accruals and deferred income	<u>325</u>
	<u>672</u>

Notes (continued)

8 Pension costs

The information disclosed below is in respect of the LLP's share of assets and liabilities within the Scottish Borders Council Pension Fund, in which it is a participating employer. The latest full actuarial valuation was carried out as at 31 March 2014.

The assets and defined benefit obligations prior to the 1st April 2015 will be accounted and disclosed for within Scottish Borders Council for service prior to the transfer date.

	2016 £000
Present value of funded defined benefit obligations	(3,184)
Fair value of plan assets	<u>2,187</u>
	997
Net liability	<u>(997)</u>

Movements in present value of defined benefit obligation

	2016 £000
At 1 April 2015	0
Current service cost	2,830
Past service costs/(gains)	58
Interest cost	9
Actuarial losses/(gains)	(229)
Contributions by members	503
Estimated benefits paid	<u>13</u>
At 31 March 2016	<u>3,184</u>

Notes (continued)

8 Pension costs (continued)

Movements in fair value of plan assets were as follows:

2016

	£000
At 1 April 2015	-
Expected return on plan assets	12
Contributions by employer	1,659
Contributions by members	503
Benefits paid	<u>13</u>
At 31 March 2016	<u><u>2,187</u></u>

Expenses recognised in the profit and loss account

	2016
	£000
Current service cost	2,830
Past service cost/(gain)	58
Interest on defined benefit pension plan obligation	(29)
Employers Contribution	<u>(1,659)</u>
At 31 March	<u>(1,200)</u>

The fair value of the plan assets and the return on those assets were as follows:

	2016
	£000
Equities	1,439
Corporate bonds	195
Property	135
Other	<u>418</u>
	<u><u>2,187</u></u>

Actual return on plan assets **£203k**

Notes (continued)

8 Pension costs (continued)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2016
	%
Discount rate	3.8
Future salary increases	1.8
Inflation/pension increase rate	2.5
RPI	3.4
CPI	2.5

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Salary increases are expected to be 1% p.a. until 31 March 2016 and 1.8% p.a. thereafter
- Current pensioner aged 65: 22.8 years (male), 23.7 years (female)
- Future retiree upon reaching 65: 25 years (male), 26 years (female)

The LLP expects to contribute approximately £1,622k to its defined benefit plan in the next financial period.

9 Post balance sheet events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements.

10 Ultimate parent organisation

The LLP's ultimate parent undertaking is Scottish Borders Council, one of its designated members, as this is the largest group into which the results of the LLP are consolidated. The consolidated group financial statements of Scottish Borders Council may be obtained from its registered office at the Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

DRAFT ANNUAL REPORT AND ACCOUNTS 2015/16

Report by Chief Financial Officer

AUDIT AND RISK COMMITTEE

28 June 2016

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Risk Committee with an opportunity to scrutinise the draft Scottish Borders Council Pension Fund Annual Report and Accounts for the year ended 31 March 2016 prior to its submission to the External Auditors.**
- 1.2 The Local Government Pension Scheme Amendment (Scotland) Regulations specify elements which must be contained in the Annual Report and Accounts, the list of these are contained in para 4.1. The draft Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 The draft Report and Accounts are still subject to Audit, which will commence early July. Following Audit sign-off, the final Report and Accounts will be circulated to the joint Committee and Board.

2 STATUS OF REPORT

- 2.1 This report is presented to enable members to consider the draft Annual Report and Accounts (the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2016

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Risk Committee:**
 - (a) **Notes the Draft Annual Report and Accounts 2015/16 for the Scottish Borders Council Pension Fund; and**
 - (b) **Supports its submission for review by the External Auditors.**

4 BACKGROUND

- 4.1 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specifies that the Annual report must contain:
- (a) report on the management and financial performance during the year;
 - (b) statement on the investment policy for the Fund;
 - (c) pensions administration arrangements during the year;
 - (d) actuarial valuation statement;
 - (e) governance compliance statement;
 - (f) fund account and net asset statement;
 - (g) annual report on pension administration strategy; and
 - (h) details of where to access current Funding Strategy Statement and Statement of Investment Principles.

5 ANNUAL REPORT AND ACCOUNTS 2015/16

- 5.1 The draft Annual Report and Accounts for 2015/16 (the Annual Report) is attached at Appendix 1. The Annual Report will be submitted to the External Auditors, KPMG for full audit by 30 June 2016.
- 5.2 The Annual Report will also be made available for public inspection for a 3 week period commencing 30 June 2016.
- 5.3 It should be noted that the Annual Report remains draft and the conclusion of the year end work including the external audit may result in changes to it.
- 5.4 The Committee will receive a copy of the final report at the end of the statutory external audit process to agree prior to its publication.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this proposal.

6.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

6.3 Equalities

It is anticipated that there are no adverse equality implications.

6.4 Acting Sustainably

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

6.5 Carbon Management

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

6.6 Rural Proofing

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

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

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

7.2 The Pension Fund Committee and Pension Fund Board considered and supported the Draft Annual Report and Accounts at its joint meeting on 16 June 2016.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Capital and Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board, 16 June 2016

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

Contact us at Capital & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA
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UNAUDITED

ANNUAL REPORT AND ACCOUNTS

SCOTTISH BORDERS COUNCIL PENSION FUND

FOR THE YEAR TO 31 MARCH 2016

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REPORT BY CHAIRMAN OF PENSION FUND COMMITTEE

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2016. 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 2015/16.

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. All members of the Pension Fund Committee have fully met the training and attendance requirements.

The introduction of Pension Fund Board resulted in changes to the governance arrangements from 1st April 2015. Joint meetings of the Committee and Board commenced on 18 June 2015 and have been productive and informative due to the positive engagement of all members.

The introduction of the Investment and Performance sub-committee, under the new governance arrangement, has proved a success with all investment managers presenting twice yearly to the committee allowing full scrutiny to be undertaken of the funds managed.

Investment Assets

Following the strong market recovery and strong performance from key fund managers over the last couple of years 2015 has provided a much more challenging time. The

level of volatility across markets, especially global equities has been unprecedented. Despite this unstable time the fund has managed to remain broadly at the 31/3/2015 level with only a small decrease of £2.8m.

The overall performance of the Fund was 7.1% based on a 3 year rolling average basis, outperforming the benchmark and the local authority weighted average return over the period.

Procurement Activity

Using the Norfolk Framework the successful procurement for Investment Advisor was completed. Members via the Procurement Sub-Group were fully engaged in this key procurement.

Cashflow Modelling

Work commenced in conjunction with advisor to model the Funds cashflow, using a number of scenarios. The models results will inform the Asset Allocation review to be undertaken in 2016.

Pensions Administration

During the year the Pensions Administration Team have worked hard to embed new working practices and procedures, following the successful implementation of the new LGPS scheme, which came into force from 1st April 2015.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, 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

2015/16 in Numbers

£542m Net Assets, an decrease of £3m on 2014/15
10,259 Members, an increase of 462 on previous year

Implementation of Pension Board
Good Engagement of Members in the Training Programme

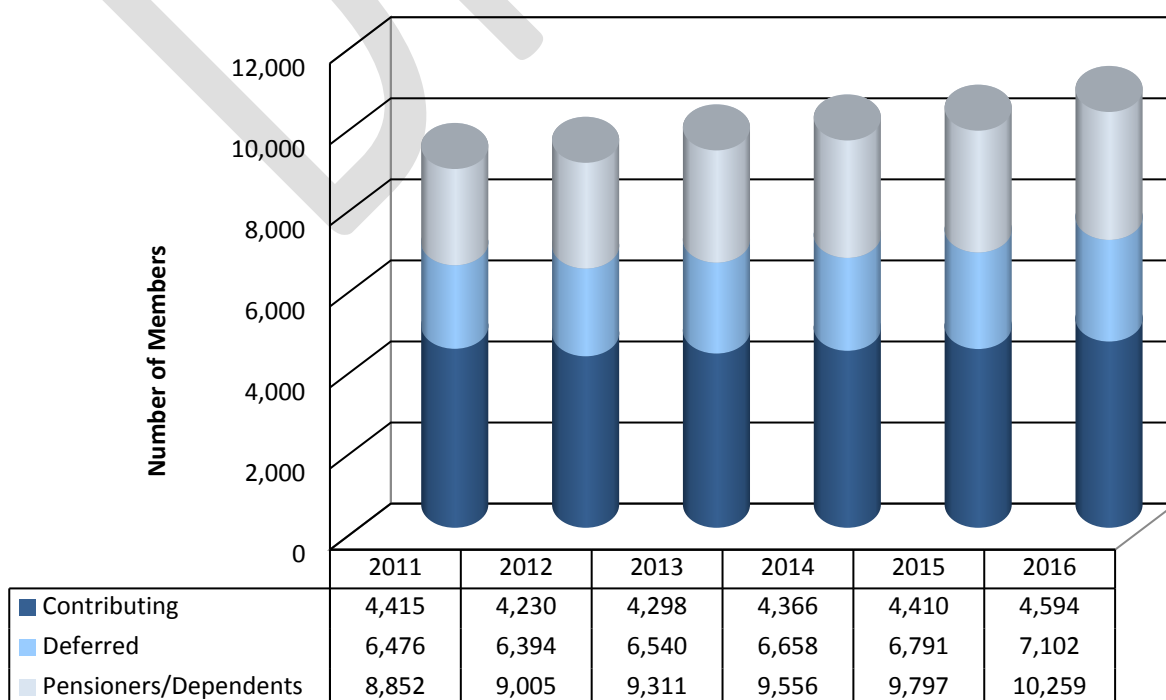
2015/16 Successes

The Scottish Borders Council Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS) is administered by Scottish Borders Council (the Administering Authority). Note 1 to the Annual Accounts, page 28 provides a description of the Fund.

The Note sets out information in relation to the Fund's regulatory environment, funding, benefits and membership.

Overview of Fund Membership

Current membership of the Fund is 10,259 of which 4,594 are actively contributing and 3,157 are in receipt of pension benefits. The following chart summarises the trends in membership:



The chart on the previous page demonstrates that although there has been a relatively static position in relation to active contributing membership, there has been a continuing rise in the number of pensioners. Since 2011 the total membership has increased by 1,407 members (a 16% increase overall). During this period the number of pensioners and their dependants has increased by 28%, and the number of active contributing members has decreased by 4%. 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 2015/16 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:

	2014/15 £'000	2015/16 £'000
Net (Withdrawals) from Dealings with Members	(9,71)	(1,971)
Net Return on Investments	60,364	2,379
Net Increase/(decrease) in the Fund during the Year	59,030	(2,865)
Closing Net Assets of the Scheme	545,125	542,260

These highlight two key messages in relation to the Financial Position of the Fund:

- ***Reduction in Net Assets due to volatile nature of the current markets***
- ***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

Following the significant changes required in the governance arrangements by 1 April 2015 the Pension Fund Board was established. Joint meetings of the Pension Fund Committee and Pension Fund Board have been held during 2015/16.

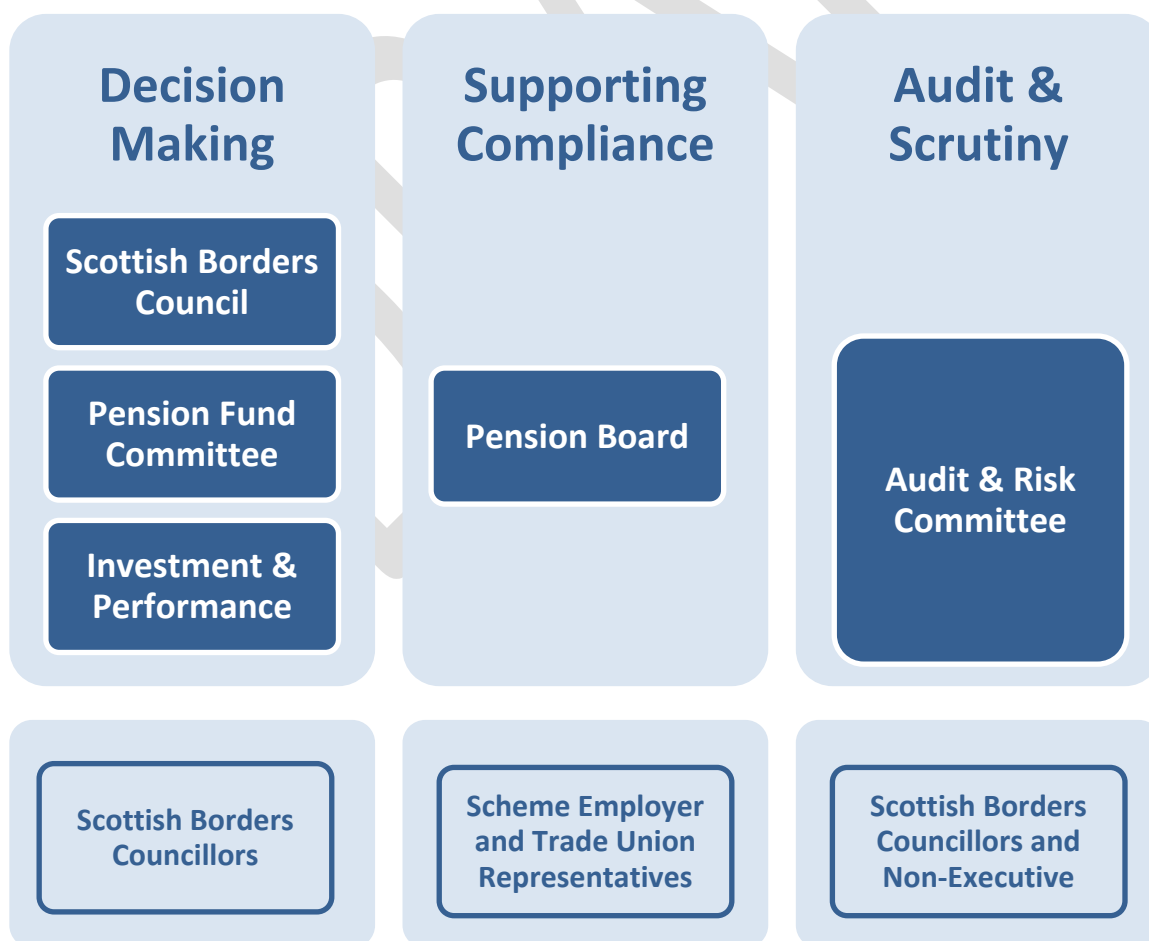
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to::

- a) securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify.

This body is made up of four scheme employer representatives and four trade union representatives. The 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.

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 2015/16 training programme was developed. It was delivered to all members of both the Pension Fund Committee and the Pension Fund Board and covered the following areas:

- Performance Reporting
- Investments and new Investment Managers
- Governance
- Employees Benefits

The Training Policy sets out a target for all members of the Pension Fund Committee and Pension Fund Board in relation to attendance at Committee meetings and training events. The 2015/16 performance is set out below.

<i>Pension Fund Committee</i>		Number of Members Attending	
% Attendance	Committee (Target – 2 meetings)	Training (Target – 2 sessions)	
100% (4 sessions or more)	4	0	
75% (3 sessions)	2	3	
50% (2 sessions)	1	4	
≤ 25% (1 or no sessions)	0	0	

<i>Pension Fund Board</i>		Number of Members Attending	
% Attendance	Committee (Target – 2 meetings)	Training (Target – 2 sessions)	
100% (4 sessions or more)	1	2	
75% (3 sessions)	4	2	
50% (2 sessions)	2	1	
≤ 25% (1 or no sessions)	1	3	

All Members of the Pension Fund Committee have fully met the attendance and training targets set in the Training Policy. The Policy also requires members of the Pension Fund Board to attend two meetings per year and two training events. Due to changes in year to membership seven of the eight members have met the attendance requirement and five have met the training requirement.

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 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 following actions were completed during 2015/16 supporting these objectives

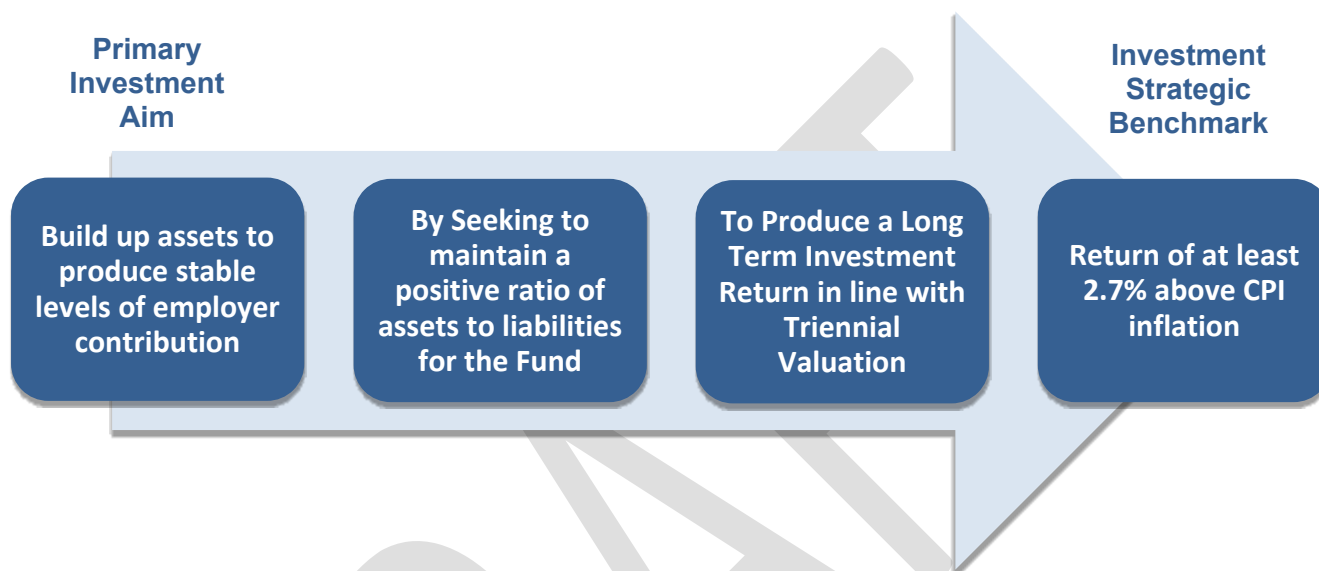
- **Implemented new governance structure, resulting in establishment of Pension Fund Board**
- **Implemented new pension administration system**
- **Procurement completed for Investment Manager**
- **Annual Report and Financial Statements produced within prescribed timescale with no audit qualifications.**

A full copy of the Business Plan can be found at www.scotborders.gov.uk/pensions.

MANAGEMENT COMMENTARY

Investment Strategy

The Statement of Investment Principles (SIP) approved on the 18 June 2015 sets out the Fund's current Investment Strategy and a copy of this document can be found at: www.scotborders.gov.uk/pensions. An extract of the key elements of the SIP are included in Annex 1 and the Investment Strategy that it sets out is summarised below:



The following table indicates the 31 March 2016 position in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/15 %	Asset Allocation at 31/3/16 %	Strategic Benchmark %
UK Equity	22.1	18.7	19.0
Global Equity	43.5	46.8	46.0
Bonds	10.7	10.8	13.0
Multi Asset Fund	17.2	17.0	17.0
Property	5.3	6.1	5.0
Cash	1.2	0.5	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 2014/15 and 2015/16. 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

2015/16 in Numbers

Strong 3 year annualised investment performance of 7.1%, 0.3% above benchmark

Strong 3 year performance to March 2016 with investment returns of 7.1% on a rolling 3 year annualised basis compared to a benchmark of 6.8%

Key Successes 2015/16

Investment Markets

During 2015/16 there was an unprecedented level of volatility across a number of markets. Over the 1 year rolling period a negative return was experienced in Equities both UK and Global. The 3 year rolling period however remains positive in all market areas. The factors affecting the markets were:

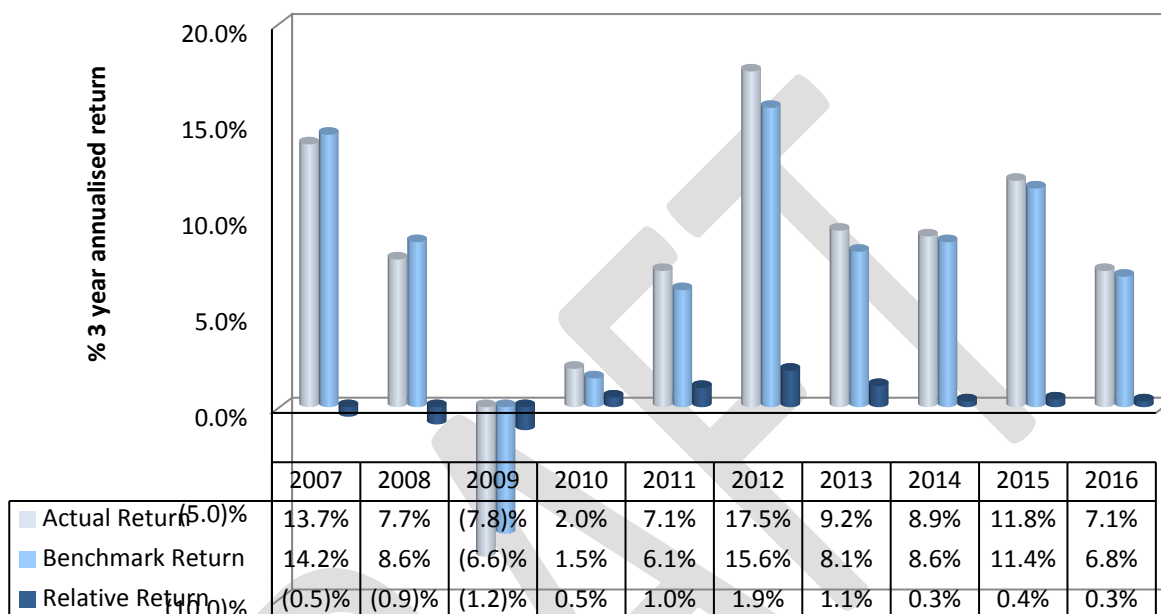
- Fears around the impact of Greek exit from Eurozone and slowing Chinese economic growth resulted in volatility across the global equity market.
- Demand for Property due to improving economic data resulted in Property being the top assets class performer.
- Interest rate increases in US resulted in volatility in both Bond and Equity markets. This also increased the fluctuations in exchange rates and resulting impact of currency hedging.

The Fund's investment performance has mirrored these strong investment returns during 2015/16.

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



Including the impact of the passive currency hedge, the overall fund return over 3 years was 7.18% p.a. versus the benchmark of 6.8% p.a., and the Fund return over 1 year was -0.1% p.a. compared to a benchmark of -0.48% p.a. Excluding the impact of the currency hedge, the fund return over 3 years was 7.1% p.a. versus a benchmark of 6.8% p.a. and the fund return over 1 year was 0.9% p.a. versus a benchmark of 0.6% p.a.

The Fund achieved these favourable returns in 2015/16 despite the volatile period in the markets during the year. The fluctuations in currency and the resulting currency hedge payments pulled the overall performance of the fund down by 0.9% during the year but over the 3 year period the currency hedge has had no impact on the overall performance.

Each quarter the Investment Consultants, AON Hewitt, reported on the Fund's quarterly performance by individual investment manager and mandate to the Joint Pension Fund Committee, and Pension Board. The Investment and Performance Sub Committee also met each Manager twice during the year giving members an opportunity to gain a deeper understanding of the investments, the decision making process and their performance.

The following table provides an analysis of how the Fund's investments performed against the 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	(0.1)	(0.4)	0.2	7.1	6.7	6.4
Total Fund excluding Currency Hedging	0.9	0.6		7.1	6.8	
Global Equities including UK	2.9	(0.4)	(1.6)	9.7	8.9	8.1
UK Equities	(3.7)	(3.9)	(3.8)	4.1	3.7	4.4
UK Government Bonds	3.3	3.2	2.9	8.2	7.0	4.9
UK Corporate Bonds	(0.4)	0.4	(0.9)	4.1	4.9	4.5
Pooled Bonds	(0.4)	0.5	(0.2)	n/a	n/a	2.6
Property	10.3	10.6	10.5	13.2	13.0	12.4
Alternatives	(1.6)	4.6	8.7	4.4	4.6	8.3
Cash	0.4	0.3	2.2	1.4	0.3	1.8

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 2016

The performance of the Fund overall has exceeded the rolling 1 year and 3 year bench mark. The rolling 1 year performance was aided by strong performance from Morgan Stanley in global equities, off-setting an under performance from Harris Associates in global equities, M&G in bonds and LGT in alternative portfolios.

Top 20 Direct Equity Holdings at 31 March 2016

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential	4.9	Anthem	2.5
Amazon	4.2	Ryanair Holdings	2.5
Royal Caribbean Cruises	4.0	BNP Paribas	2.4
Naspers	3.5	Moody's	2.4
SAP	3.1	First Republic Bank San Francisco	2.3
Taiwan Semicon.SPN.ADR.1:5	3.1	LafargeHolcim	2.2
CRH (LON)	3.1	Daimler	2.2
Alphabet 'C'	2.9	Credit Suisse Group	2.1
Glencore	2.6	MS&AD Insurance Group Holdings	2.1
Markel	2.5	TD Ameritrade Holding	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.

Valuation Date as at 31 March	Past Service Funding Position – Scottish Borders Council Pension Fund		
	2008 £m	2011 £m	2014 £m
Value of the Scheme Liabilities	(310.1)	(402.2)	(487.6)
Smoothed Asset Value	299.2	384.8	490.5
Surplus/ (Deficit)	(10.9)	(17.4)	2.9
Funding Level	96%	96%	101%

Note 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 earnings rather than final salary which came into effect on 1 April 2015.

A major contributing factor to the improvement in the funding level has been the strong investment performance that the Fund has achieved over the past 3 years.

Valuation for Statutory Accounts at 31 March 2016

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 £154.2m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 Triennial Funding Valuation because IAS 19 stipulates a 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

2015/16 in Numbers

17 Scheme Employers
£20.4m of Pension and Other Benefits paid during year
£18.6m of Contributions Received from 4,594 Active Members and their Employers
6,446 Benefits Statements issued

Pension Administration Strategy updated and approved September 2015
Implementation of the new LGPS Scheme April 2015
Successful admission of additional Bodies to the Fund

Key Successes 2015/16

Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2015/16 and covered the new requirements for the year end returns, which were updated as a consequence of the new scheme rules. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the new Pension Board.

MEMBERSHIP

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Teachers are not included as they come within other national pension schemes. There are 17 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	3,543	2,952	2,281	8,776
Borders College	162	62	85	309
Visit Scotland (Scottish Borders)	1	6	9	16
	3,706	3,020	2,375	9,101
Active Admitted Bodies:				
Scottish Borders Housing Association	121	73	59	253
Borders Sport and Leisure Trust	59	12	22	93
SBCares	693	23	33	749
Jedburgh Leisure Facilities Trust	2		2	4
L&B Community Justice Authority	5	1	3	9
Amey Community Limited	8	2	4	14
	888	111	123	1,122
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	4,594	3,157	2,508	10,259

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 September 2015. This sets out scheme employer and administering authority roles and responsibilities and defines the service performance standards.

How have we done?

A comprehensive report on Pensions Administration performance for 2015/16 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 16 June 2016 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 2015/16 and show improvements on 2014/15 performance. During 2015/16 the target performance days was reduced from 10 to 5 days for query responses and 100% of queries were replied to within this new target.

Service Standard - Estimates

Standard	Volume of Requests	Target Response	2015/16 % on Target
Estimates – Transfer In	54	20 days	22.2%
Estimates – Transfer Out	65	20 days	35.4%
Estimate – All Other	887	10 days	84.2%
Total Estimates	1,006		

Service Standard – Query Response Turnaround

Standard	2014/15		2015/16	
	Volume of Queries	% on Target	Volume of Queries	% on Target
Query responses – within 5 working days	480	100%	1,075	100%
Benefit Statement queries – within 20 working days	20	100%	55	100%
Total	500	100%	1,130	100%

Service Standard - Other

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	1 meeting
Benefit Statements	by end of August	August 2015

Employer Performance Measures

Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	691	90%	100%
Changes notified – within 20 working days	485	90%	100%
Retirement info – at least 20 working days before	191	90%	100%
Early leaver notification – within 20 working days	410	90%	100%
Death in service notification – within 10 working days	6	90%	100%

Service Standard – Pension Contribution Payments

The following tables compare the date contribution payments are received against the target date for each of the Scheduled and Active Admitted Bodies.

Employer Body	Number of Monthly Payments Received		
	By Target Date (19 th of Month)	Late	% On Time
Scottish Borders Council	12	-	100%
Visit Scotland	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	11	1	92%
Jedburgh Leisure Facilities Trust	12	-	100%
Borders Sport and Leisure Trust	12	-	100%
AMEY Community Limited	12	-	100%
SBCares	12	-	100%

There has been a significant improvement in the number of payments being received on time during 2015/16, with only 1 payment being made after the target date, compared with 6 late payments in the previous year. 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

XX September 2016

GOVERNANCE

Annual Governance Statement 2015/16

Introduction

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Pension Fund is the Governance Policy and Compliance Statement (as amended on 18 June 2015) which is available on the website www.scotborders.gov.uk/pensions.

The Governance Framework

The key elements of the Pension Fund's governance arrangements include:

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme set up for the Scottish Borders geographic area.
- b) The Council has delegated its responsibilities as Scheme Manager to the Pension Fund Committee. The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund.
- c) The introduction of the Pensions Board, which meets jointly with the Committee, formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval the first Pension Fund Business Plan covering the period 2015/16 – 2017/18 to improve planning and monitoring of the performance of the Fund and to demonstrate the “Myners Principle” relating to effective decision making. The business plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that was managed effectively, transparently and was compliant.
- e) The Pension Fund appoints professional advisers and external service providers.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks, regular reviews of investment manager reports that measure performance against agreed targets, and independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.
- g) The Pension Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the risk register to regular review.
- h) The Chief Financial Officer (Section 95 officer) for the Council is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate professional advice is sought and is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.

- i) The Chief Officer HR for the Council is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved pensions' administration strategy.
- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

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

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles and the detail of this is set out in the Governance Compliance Statement 2015/16, Annex 1.

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.

The conclusion from the review activity outlined above is that in 2015/16 the Pension Fund continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

Improvement Areas of Governance

The review has identified some areas where further improvements can be made to enhance the existing governance arrangements:

- a) Development of a communications plan to improve awareness and understanding of stakeholders and encourage maximum membership of the Fund.
- b) 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, Annex 1.

Councillor Bill White
Chairman
Pension Fund Committee
XX September 2016

Tracey Logan
Chief Executive
Scottish Borders Council

GOVERNANCE

Governance Compliance Statement 2015/16

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Board.

Principle		Full Compliance	Comments
Structure			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the Committee).</p> <p>The Committee comprises of 7 elected members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p>
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	<p>Introduction of the Pensions Board (the Board) has formalised the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board has 8 members, 4 employer representatives and 4 trade union representatives.</p> <p>The Board constitution was developed in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board 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.</p> <p>The Investment and Performance Sub-Committee (the Sub-Committee) was 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.</p>

Principle		Full Compliance	Comments
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to Committee for approval. 2 members from the Board and all members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
Committee Membership and Representation			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Board and Committee meet jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Board. The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity.
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June). The Board was established by Council on 2 April 2015. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive papers and access meetings in the same way.

Principle		Full Compliance	Comments
Selection and role of lay members			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected members this is part of Council's Code of Governance along with Member induction programme. In addition the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.
Voting			
A	The policy of individual administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution.
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.

Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meetings of the Committee and Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits	Yes	Investment Sub-Committee meets every six months in between main joint Committee/Board meetings.
C	An administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	Pension Board formally provides for the stakeholders engagement.
Access			
A	Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members detailed in Scheme of Administration.

Principle		Full Compliance	Comments
Scope			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out that the Committee as having a remit which covers all matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.
Publicity			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	Minutes and Public papers available via Council website, as are various governance and scheme policy documents.

GOVERNANCE

Risk Management Statement

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately.

The Risk Register for the Pension Fund has been developed in line with the Council's approach to risk management and assesses risk using a scoring methodology based on likelihood and impact.

A full risk review was undertaken in June 2015 and subsequent reviews have followed the Council's cycle, as shown below was followed:

Level of risk (Inherent risk score)	Reporting and Review Cycle
RED -Very High (15-25)	3 monthly reviews of action progress throughout the year
AMBER – High (6-12)	6 monthly review
GREEN – Low (1-5)	Annual review

The headings under which the Council consider risk are set out below and the analysis of the level and number of risks are set out below:

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	5	5	-	-	8	2
Employer	-	4	-	-	3	1
Resource & Skill	-	5	-	-	3	2
Liquidity	2	4	-	1	5	-
Administrative	1	8	-	-	4	5
Regulatory & Compliance	1	1	1	1	-	2
Reputation	1	4	-	-	2	3
Total Number of Risks	10	31	1	2	25	15

The two risks that remain at red assessment i.e. high risk as at 31 March 2016 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 2016, and of its income and expenditure for the year ended 31 March 2016.

Councillor Bill White
Chairman
Pension Fund Committee

David Robertson
Chief Financial Officer
Scottish Borders Council

XX September 2016

STATEMENT OF ACCOUNTS 2015/16 FUND ACCOUNT

2014/15 Restated £'000		2015/16 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
18,217	Contributions	18,642	6,9
703	Transfers in from other pension funds	411	7
18,920		19,053	
(19,106)	Benefits	(20,357)	8
(786)	Payments To And On Account Of Leavers	(667)	10
(19,892)		(21,024)	
(972)	Net Additions/(Withdrawals) from Dealings with Members	(1,971)	
(2,858)	Management expenses	(3,272)	11
	Return on Investments:		
4,605	Investment Income	6,144	12
58,422	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	(3,614)	13
(167)	Taxes on Income	(151)	
62,860	Net Return on Investments	2,379	
59,030	Net Increase/(Decrease) in the Fund during the Year	(2,865)	
486,095	Opening Net Assets of the Scheme	545,125	
545,125	Closing Net Assets of the Scheme	542,260	

NET ASSETS STATEMENT as at 31 March 2016

2015 £'000		2016 £'000	Notes
216,527	Investment Assets Equities	203,952	} 15
28,652	Managed Funds: Property	32,546	
76,217	Global Equities	82,947	
65,308	UK Equities- Passive	62,415	
18,374	Bonds	18,643	
39,967	Diversified Fixed Income	39,913	
93,815	Alternatives	92,526	
1,665	Open Ended Investment Contracts	1,674	
(2,515)	Derivatives – Forward Foreign Exchange	1,447	
6,450	Cash Deposits	5,715	
544,460	Total Investment Assets	541,778	
748	Other Investment Balances	614	
	Current Assets & Liabilities		
1,138	Cash Balances	1,365	
91	Contributions due from Employers	210	
56	Other Current Assets	387	
(1,368)	Other Current Liabilities	(2,096)	
665		(133)	
545,125	Net Assets	542,260	

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 xx June 2016 and the audited accounts were authorised for issue on xx September 2016.

David Robertson CPFA
Chief Financial Officer
XX September 2016

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 2015/16 were based on the valuation undertaken as at the 31 March 2014 as amended by specific changes agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2015/16 ranged from 15.5% to 18.5%.

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 2016. *From 1 April 2015 these contributions will be based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.*

C) BENEFITS

Prior to 1 April 2015, pension benefits under the LGPS have been based on final pensionable pay and length of pensionable service as summarised below:

	Service before 1 April 2009	Service after 31 March 2009 until 31 March 2016
Pension	Each year worked is worth 1/80 th x final pensionable salary	Each year worked is worth 1/60 th x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A 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 2015/16 financial year and its position as at the 31 March 2016. 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 2015/16 - 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 basis by the scheme actuary in accordance with the requirements of IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 21, page 47).

Additional Voluntary Contributions (AVCs)

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2016 was £0.859m (2014/15 £0.809m). During the year contributions totalled £0.006m, while payments out of the AVC fund totalled £0.01m. 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 2016 was £19.79m.

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.

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5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the financial statements at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 21)	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham is engaged to provide the Fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> - A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £44m - A 0.5% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £27m - A 0.5% increase in the long-term rate of salary increase would increase value of the liabilities by £6m, and - A 1.25% increase in assumed life expectancy would increase the deficit by £5m <p style="text-align: right;"><i>Source – Triennial Valuation 2014</i></p>
Portfolio of alternative assets held in a fund of funds	The alternative assets fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds directors or independent administrators judge necessary. The fund of funds is not publically listed and as such there is a degree of estimation involved in the valuation.	The total portfolio of alternative assets held in a fund of funds is valued in the Financial Statements at £92.34m. There is a risk that this investment may be under- or overstated in the accounts.

6 CONTRIBUTIONS RECEIVABLE

2014/15				2015/16		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
13,039	4,400	17,439	Normal	13,373	4,401	17,774
743	-	743	Special/Pension Fund Strain	772	-	772
-	35	35	Additional Voluntary	-	96	96
13,782	4,435	18,217	Total	14,145	4,497	18,642

7 TRANSFERS IN

There were no group transfers in to the scheme during 2015/16 or 2014/15 and the total of £0.411m (2014/15: 0.703m) represents the total of transfer values in respect of individual members joining the scheme.

8 BENEFITS PAYABLE

2014/15 £'000		2015/16 £'000
14,657	Pension Payments	15,234
4,449	Lump Sums/Death Benefits	5,123
19,106		20,357

9 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

2014/15			2015/16	
Benefits Payable £'000	Contributions Receivable £'000		Benefits Payable £'000	Contributions Receivable £'000
18,255	16,511	Scottish Borders Council	19,340	14,811
245	585	Scheduled Bodies	261	594
606	1,121	Admitted Bodies	756	3,237
19,106	18,217	Total	20,357	18,642

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2014/15 £'000		2015/16 £'000
73	Contributions Returned	68
713	Individual Transfers to Other schemes	599
786		667

11 MANAGEMENT EXPENSES

2014/15 £'000		2015/16 £'000
362	Administrative costs	301
2,165	Investment management expenses	2,754
331	Oversight and governance costs	217
2,858	Total	3,272

12 INVESTMENT INCOME

2014/15 £'000		2015/16 £'000
(103)	Income from Fixed Interest Securities	0
(3,767)	Dividends from equities	(5,353)
(676)	Income from Pooled Investment Vehicles	(771)
(59)	Interest on Cash Deposits	(20)
(4,605)		(6,144)

13 (PROFITS) AND LOSSES ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

2014/15 £'000		2015/16 £'000
(21,150)	Realised	2,685
(37,272)	Unrealised	929
(58,422)		3,614

14 AUDITOR'S REMUNERATION

In 2015/16 the agreed audit fee for the year was £23,000. There were also fees, of £5,950, incurred during 2015/16 in respect of specialist taxation services provided by KPMG LLP, the Pension Fund's auditor.

15 ANALYSIS OF NET INVESTMENT ASSETS

Market Value at 31 March 2015				Market Value at 31 March 2016		
UK	Overseas	Total		UK	Overseas	Total
£'000	£'000	£'000		£'000	£'000	£'000
			Investment Assets			
53,569	162,958	216,527	Equities	43,530	160,423	203,953
			Managed Funds:			
28,652	-	28,652	Property	32,546	-	32,546
-	76,217	76,217	Global Equities	-	82,947	82,947
65,308	-	65,308	Passive UK Equities	62,415	-	62,415
18,374	-	18,374	Bonds	18,463	-	18,463
-	39,967	39,967	Diversified Fixed Income	-	39,913	39,913
-	93,815	93,815	Alternatives	-	92,526	92,526
1,665	-	1,665	Other Open Ended Investment contracts	1,674	-	1,674
5,056	1,394	6,450	Cash Deposits	3,936	1,778	5,714
172,624	374,351	546,975	Total Investment Assets	162,744	377,587	540,331
			Investment Liabilities			
(2,515)	-	(2,515)	Derivative - Passive Currency Hedge	1,447	-	1,447
170,109	374,351	544,460	Net Investment Assets	164,191	377,587	541,778

As at 31 March 2016 assets valued at £442.09m were quoted on the Stock Exchange (31 March 2015: £446.78m). The investments in the alternatives portfolio, managed by LGT Capital Partners (£92.52m at 31 March 2016), are not quoted on a stock exchange.

During 2015/16, sales of investments totalled £92.3m and purchases totalled £100.6m. These levels were reduced from 2014/15 as no transition activities were undertaken during 2015/16.

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 2016 were hedging a foreign currency exposure value of £108.9m and had a market value of a gain of £1.452m. These contracts had a settlement date of 11 June 2016.

Alternative asset portfolio at 31 March 2016

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £92.526m at 31 March 2016, is allocated to the following asset classes at 31 March 2016: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities, Infrastructure and Private Equity.

(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					
Equities	216,527	46,179	(48,708)	(10,046)	203,952
Managed Funds:					
Property	28,652	5,941	(4,408)	2,361	32,546
Global Equities	76,217	114	(2,600)	9,216	82,947
Passive UK Equities	65,308	-	-	(2,893)	62,415
Bonds	18,374	-	-	269	18,643
Diversified Fixed Income	39,967	771	-	(825)	39,913
Alternatives	93,815	36,836	(36,589)	(1,536)	92,526
Other Open Ended Investment Contracts	1,665	-	(10)	19	1,674
Derivative Contracts:					
Passive Currency Hedge	(2,515)	10,738	-	(6,776)	1,447
Net Investments exc. Cash Deposits	538,010	100,579	(92,315)	(10,211)	536,064

Significant Transactions during the year:

- The £36.8 purchases and £36.6m sales in the Alternative fund were a result of a restructuring by the Fund Manager to simplify the vehicle structure of the fund.
- The requirement to fund currency hedge payments required £9m disinvestment to be made from the Global Equity portfolio. £

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 2016. Each of the investments comprises units in a managed fund.

Value as at 31 March 2015	£'000
M&G Alpha Opportunities Fund	39,913
Morgan Stanley Global Brands Fund	82,947
LGT Crown SBC Segregated Portfolio	92,337
UBS UK Passive Equities	62,415

Investment Analysed by Fund Manager

Investment Management was undertaken on behalf of the Fund during the financial year by six firms of investment managers: UBS Global Asset Management, Baillie Gifford & Co, Morgan Stanley, Harris Associates and M&G and LGT Capital Partners. The Fund's passive currency hedging programme was provided by State Street Global Advisors. As at 31 March 2016 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-15				31-Mar-16	
£'000	%			£'000	%
65,308	12.00	UBS	UK Equities - Passive	62,415	11.49
40,783	7.49	Baillie Gifford	UK Equities	39,111	7.20
123,788	22.74	Baillie Gifford	Global Equities	120,370	22.16
57,214	10.51	Harris	Global Equities	50,278	9.26
76,216	14.00	Morgan Stanley	Managed Fund - Global Equities	82,947	15.27
39,967	7.34	M&G	Managed Fund - Diversified Income	39,913	7.35
18,374	3.37	M&G	Managed Fund - Bonds	18,643	3.43
29,428	5.40	UBS	Property	32,812	6.04
93,815	17.23	LGT	Managed Fund - Alternatives	92,337	17.00
(2,515)	(0.46)	State Street	Derivatives - Passive Currency Hedge	1,447	0.27
2,081	0.38	Internal	Internally Managed Cash & Investments	2,871	0.53
544,459	100.00			543,144	100.00

The benchmarks and performance targets for each manager as at the 31 March 2016 are contained in Annex 1, Section 4.3, page 51 for information.

Fund Performance

The total Fund return for the year was (0.1%) including the currency hedging. The hedging arrangements had a negative impact, decreasing the return by 1.0%. Excluding the currency hedging, the return on the Fund was 0.9% with a relative return over benchmark of 0.2%.

Over three years the Fund has generated an annualised return of 7.1% per annum, including the currency hedging, with a relative return over benchmark of 0.3% 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 2016 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	10.76
Global Pooled Equities	10.72
UK Bonds	6.84
Cash	0.01
Property	1.88
Alternatives	1.97

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

Asset Type	Value as at 31 Mar 16 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	101,526	10.76	112,450	90,602
Global Equities	253,594	10.72	280,779	226,409
Total Bonds	58,556	6.84	62,561	54,551
Cash	2,871	0.01	2,872	2,871
Property	32,812	1.88	33,429	32,195
Alternatives	92,337	1.97	94,156	90,518
Total Assets Exc. Currency Hedge	541,696	7.83	584,111	499,282

*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 2015 and 31 March 2016 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 2015 £'000	At 31 March 2016 £'000
Cash and Cash Equivalents	7,588	7,080
Fixed Interest Securities	58,341	58,556
	65,929	65,636

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Value as at 31 Mar 15 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	7,080	71	(71)
Fixed Interest Securities	58,556	586	(586)
	65,636	657	(657)

(iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in equities overseas that are denominated in currencies other than £UK. To help manage this risk, the Fund hedges 50% of its exposure to equities denominated in certain major foreign currencies through the operation of a passive currency overlay programme, operated by State Street.

The following table summarises the Fund's currency exposure at 31 March 2016:

Currency exposure by asset type	As 31 March 2015 £'000	As 31 March 2016 £'000
Overseas Equities	239,175	243,370
Diversified Bonds	39,967	39,913
Alternatives	93,815	92,526
Cash - Foreign Currency	1,394	1,778
Total	374,351	377,587

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 16 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	1,219	8.26%	1,320	1,118
Brazilian Real	669	13.89%	762	576
Canadian Dollar	1,442	7.89%	1,556	1,329
Danish Krone	2,274	6.83%	2,429	2,119
EURO *	20,767	3.39%	21,471	20,063
Hong Kong Dollar	2,847	7.67%	3,066	2,629
Japanese Yen *	11,072	5.84%	11,719	10,426
Norwegian Krone	1,309	9.40%	1,432	1,186
South African Rand	3,878	10.31%	4,277	3,478
South Korean Won	1,836	7.22%	1,969	1,704
Swedish Krona	4,177	7.65%	4,496	3,857
Swiss Franc	11,668	9.95%	12,829	10,507
US Dollar *	91,095	3.89%	94,639	87,551
Total Currency **	154,253		161,965	146,543

* 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 2016, including current account cash, was £2.78m (31 March 2015: £3.14m). This was held with the following institutions:

	Rating	Balance at 31 March 2015 £'000	Balance at 31 March 2016 £'000
Money Market Accounts			
Ignis	AAA	500	355
Scottish Widows	AAA	500	355
Blackrock	AAA	500	355
Prime Rate	AAA	500	355
Bank Current Accounts			
Bank of Scotland	A	1,138	1,365
Total		3,138	2,785

C) LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its internally managed Pension Fund cash holdings through use of instant access accounts or money market funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2016, the Fund's only illiquid assets under this definition are some of the Property fund of funds holdings which are only tradable in the secondary market.

18 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £1.797m (2015: £6.603m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.010m (2015: £0.022m). The Council charged the Pension Fund £0.339m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2015 £'000	2016 £'000
Due to Scottish Borders Council	(136)	(671)

19 MEMBERSHIP RECONCILIATION 2015/16

	Membership Reconciliation – Number of Members			
	Contributing Members	Pensioners	Deferred Pensioners	Total
Number at 31 March 2015	4,410	3,006	2,381	9,797
Adjustments (late notifications etc.)	4	8	(4)	8
New Members	691		2	693
Transfers to Other Schemes	(40)		(10)	(50)
Refunds of Contributions	(132)			(132)
Retirement of Contributing Members	(122)	122		0
Transfer to Deferred Pensioners	(228)		228	0
Re-employed Deferred Pensioners	17		(17)	0
Retirement of Deferred Pensioners		69	(69)	0
Dependants' Pensions		37		37
Deaths	(6)	(80)	(3)	(89)
Commutation (trivial pensions)		(5)		(5)
Ill Health Grant				0
End of Entitlement				0
Number at 31 March 2016	4,594	3,157	2,508	10,259

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	
	2015/16	2015/16 to 2017/18
Scottish Borders Council Common Pool	18.0%	18.0%
Leisure Trusts Common Pool *	15.5%	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 2014 £m	31 March 2015 £m	31 March 2016 £m
Present value of the defined benefit obligations	(713.9)	(716.6)	(696.9)
Fair Value of Fund Assets* (bid value)	475.9	537.4	542.7
Net Asset/(Liability)	(238.0)	(179.2)	(154.2)

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 2014		At 31 March 2015		At 31 March 2016	
	% p.a.	% p.a.	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Discount Rate	4.5	0.8	3.3	0.1	3.7	0.4
Retail Price Inflation (RPI)	3.7	-	3.2	-	3.3	
Pay Increases – Long Term	5.1	1.4	4.2	1.0	4.2	0.9
Pension Increases	2.9	(0.8)	2.4	(0.8)	2.4	(0.9)

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

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%
Global Equity	Sub Total	19.0%
	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 AC World Total Return Index
	Baillie Gifford	+2.5%	MSCI AC World Total Return Index
	Morgan Stanley	Not Defined	MSCI World Total Return 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%	1 Month 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 Ltd to March 2016, KPMG from April 2016

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

GLOSSARY OF TERMS

ACTIVE MANAGEMENT

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or *asset allocation*. Compare this with *Passive Management*.

ASSET ALLOCATION

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short term tactical changes might be made to achieve short-term advantage.

ALTERNATIVE ASSETS

This is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult.

BALANCED MANAGEMENT

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with *specialist management*.

BENCHMARK RETURN

This is calculated against the Fund's chosen "benchmarking" group, which comprises a composite of different market indices. The indices in use cover all the markets in which the Fund is invested.

CONTRIBUTING MEMBER

This is someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an "active" member.

DEFERRED MEMBER

This is someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.

GROWTH MANAGER

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with *value manager*.

INVESTMENT MANAGER/FUND MANAGER

A person or organisation that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients

MANDATE

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

PASSIVE MANAGEMENT

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with *active management*.

PENSIONER/DEPENDENT MEMBER

This is someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.

POOLED FUND

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

REALISED GAIN OR LOSS

Only when an investment is sold does the Fund actually make a profit or loss.

Realised profits and losses are those that have actually arisen via sales throughout the year.

RETURN

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

RISK

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

SEGREGATED FUND

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

SPECIALIST MANAGEMENT

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

UNREALISED GAIN OR LOSS

The Statements of Accounts are based on the market value of investments at 31 March 2016. This means that these show what profit or loss would have made if the Fund had sold all its investments on that day. The result is a notional "unrealised" profit or loss.

VALUE MANAGER

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

VESTED/NON VESTED OBLIGATIONS

Vested obligations refer to employee benefits that are not conditional on future employment. Non vested obligations refer to employee benefits that are conditional on future employment.

PENSION FUND STRAIN

The cost to employers of the early release of pension benefits.

ADDITIONAL INFORMATION

Key Documents Online

You can find further information on our website, www.scotborders.gov.uk/pensions, including the following documents:

- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Training Policy
- Business Plan 2015/16 to 2017/18
- Actuarial Valuation Statement 2014

Fund Advisers

Actuaries:	Barnett Waddingham
Auditors:	KPMG
Bankers:	Bank of Scotland
Investment Consultancy:	AON Hewitt to 31 March 2016, KPMG from 12 April 2016
Investment Custodians:	JP Morgan
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

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	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

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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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