Public Document Pack

AUDIT AND RISK
MONDAY, 26TH SEPTEMBER, 2016

A MEETING of the AUDIT AND RISK will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 26 SEPTEMBER 2016 at 10.15 am.

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

J. J. WILKINSON,
Clerk to the Council,

19 September 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 28 June 2016 to be approved and signed by the Chairman. (Copy attached.)	5 mins
	(a) **Scottish Borders Council Annual Audit Report 2015/16.** (Pages 7 - 56) Consider the annual audit report from the Council's External Auditors, KPMG. (Copy attached)	40 mins
	(b) **Scottish Borders Council Final Reports and Accounts 2015/16.** (Pages 57 - 354) Consider report by the Chief Financial Officer on Scottish Borders Council's audited Statement of Accounts and various Annual Reports and Financial Statements for 2015/16. (1) Scottish Borders Council; (2) SBC Common Good Funds; (3) SBC Charitable Trusts: (i) SBC Welfare Trust; (ii) SBC Education Trust; (iii) SBC Community Enhancement Trust;	

	(iv) Thomas Howden Wildlife Trust; (v) Ormiston Institution; (vi) SBC Charity Funds; (4) Bridge Homes LLP; (5) SB Cares LLP. (Copy attached)		
	(a) **Scottish Borders Council Pension Fund Annual Audit Report 2015/16.** Consider the Annual Audit Report from the Council's External Auditors, KPMG. (Copy attached)	(Pages 355 - 382)	30 mins
	(b) **Scottish Borders Council Pension Fund Annual Report and Accounts 2015/16.** Consider report by Chief Financial Officer on audited Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2016. (Copy attached)	(Pages 383 - 442)	
	(a) **Scottish Borders Health and Social Care Integration Joint Board Annual Audit Report 2015/16.** Note the annual audit report from the IJB's External Auditors, KPMG. (Copy attached)	(Pages 443 - 458)	20 mins
	(b) **Scottish Borders Health and Social Care Integration Joint Board Annual Report and Accounts 2015/16.** Note the report by IJB interim Chief Financial Officer on audited Health and Social Care Integration Joint Board Annual Report and Statement of Accounts for the year ended 31 March 2016. (Copy attached)	(Pages 459 - 486)	
	(c) **Scottish Borders Health and Social Care Integration Joint Board Financial Governance and Management** To note update report by IJB Interim Chief Financial Officer on Financial governance and management arrangements for the Scottish Borders Health and Social Care Integration Joint Board (copies attached).	(Pages 487 - 514)	
8.	**Annual Treasury Management Report 2015/16** (Pages 515 - 538) Consider annual report by Chief Financial Officer on the Council’s Treasury Management activities undertaken during financial year 2015/16 for review and scrutiny prior to Council approval. (Copy attached)		15 mins
9.	**Internal Audit Work 2016/17 to August 2016.** (Pages 539 - 550) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit and work currently in progress. (Copy attached)		15 mins
10.	**Any Other Items Previously Circulated.**		
11.	**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 and B White (Vice-Chairman), Mr M Middlemiss, Mr H Walpole.

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SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE

MINUTE of Meeting of the AUDIT AND RISK COMMITTEE held in Council Headquarters, Council Headquarters, Newtown St Boswells on Tuesday, 28 June, 2016 at 10.15 am

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Present:-	Councillors M. Ballantyne (Chair), I. Gillespie, A. J. Nicol (from para 2), S. Scott and B White (Vice-Chairman).
Also present:-	Councillor S. Aitchison (para 2)
Apologies:-	Mr H. Walpole.
In Attendance:-	Chief Financial Officer, Chief Officer Audit and Risk, Service Director Children & Young People (for Item 5), Democratic Services Officer (F Walling); Mr M. Swann – KPMG.

EXTERNAL MEMBER
The Chief Officer Audit and Risk informed the Committee that Mr Paul McGinley had resigned from the Committee due to an unforeseen commitment. Mr McGinley was thanked for his attendance at the previous meetings.

1. **MINUTE.**
There had been circulated copies of the Minute of 9 May 2016.

DECISION
APPROVED for signature by the Chairman.

MEMBER
Councillor Nicol joined the meeting during the discussion below.

2. **RISK MANAGEMENT IN SERVICES.**
The Service Director Children & Young People, Donna Manson, was in attendance to brief the Committee on the strategic risks facing the service, to explain the internal controls and governance in place to manage and mitigate those risks and to demonstrate how risk management was embedded within services. Ms Manson provided hand-outs to supplement her presentation. She explained that Risk Registers were held for each of the following services: Early Years; Schools; Additional Support Needs; Community Learning & Development; Children & Families Social Work; and Business Support. Service Risk Registers were developed through the Business Planning Process and were owned by Service Managers. The Registers were reviewed by the Service Director and Management team with risks being escalated to the Corporate Management Team if considered necessary. Ms Manson referred to the key overarching issues facing her service. With regard to Financial Pressures the challenge was to contribute to savings whilst delivering outcomes but she stressed that the savings identified were deliverable. Within Health and Wellbeing of Children and Families mental health was a growing issue. In this respect the Council was working with partners to improve universal provision and strategies were being developed with young people through the curriculum. With regard to Government policies and legislation, the service had to face increasing demands and expectations of key stakeholders and address any changes. The Service Director highlighted the key risks and challenges as follows: balancing the needs of all families when implementing changes required by new legislation; identifying and adequately

supporting young people with mental and emotional wellbeing issues; ensuring all parts of the service were fully integrated; managing pressures in external placements for care or education which may impact on budget and may not sufficiently meet needs; and failing to achieve attainment targets and positive outcomes for young people through a lack of focus on quality improvement. Ms Manson went on to explain how the management of risk was embedded into the Business Planning Process to ensure risks were reflected in strategic plans and action plans. Partnership working with the NHS was critical. Areas for Improvement and key actions were identified and agreed for each service area. Critical dependencies were also identified such as the School Estate which was currently subject to a review. Risks were further managed through Quality Improvement Frameworks and by developing a culture of self-evaluation, ambition and improvement whilst regularly monitoring risks. In this respect Ms Manson welcomed inspections and both internal and external scrutiny. Key measures of performance arising from effective data capture, analysis and target setting indicated that standards were being raised. Within the National Improvement Framework the Borders were in the top quartile in many areas. Ms Manson answered Members' questions on specific areas of risk facing her service. She confirmed that work had been carried out in advance of the proposed 'Named Person' legislation and that although guidance from Scottish Government was awaited the Council was in a position to implement this. She advised that there was no financial risk associated with this legislation. In response to a question about school buildings and in particular Howdenburn School, Ms Manson referred to the extreme circumstances that caused the storm damage at Howdenburn. She gave assurance that all school buildings in the Scottish Borders had been inspected as part of the National Review of school buildings. The Chairman thanked the Service Director for her attendance and presentation.

DECISION
NOTED the presentation.

3. **RISK MANAGEMENT ANNUAL REPORT 2015/16.**
With reference to paragraph 14 of the Minute of 19 January 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk. The report provided 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. The report explained that 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 were shown in Appendix 1 to the report. The report set out examples of specific work carried out by the Corporate Risk Officer with relevant managers in 2015/16 and the associated positive outcomes and working relationships that had been established. The Appendix outlined actions which had been completed and those due for completion by the end of 2016. Work in progress included a programme of risk management training for relevant managers on the revised policy and process which had been launched during 2015. Workshops in 2015/16, led by the Corporate Risk Officer, had resulted in the development of Risk Registers for the majority of service areas. A Risk Register review process was underway for 2016/17. In response to a question the Chief Officer Audit and Risk, confirmed that there had been appropriate levels of engagement from Departments but that, for reassurance, an update on attendance at training and workshops would be fed back to the Committee. With regard to the improvement action to standardise Risk Reporting reports from Covalent, Members agreed that it would be helpful to have a briefing regarding Management's utilisation of Covalent as a tool in respect of Risk Management, but that this should be part of an informal session.

DECISION

(a) **ACKNOWLEDGED that it was 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) **AGREED to receive an informal briefing on Management's utilisation of Covalent as a tool in respect of Risk Management.**

4. **COUNTER FRAUD ANNUAL REPORT 2015/16.**

With reference to paragraph 4 of the Minute of 30 June 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk. The report provided 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. The report explained that during 2015 the Council refreshed its approach to tackling fraud with a refocus on prevention and detection using fraud risk assessment at its core. There was a 3-year counter fraud strategy and associated improvement plan to embed anti-fraud culture across the Council, taking account of reducing resources. The current position of improvement actions arising from that review were shown in Appendix 1 to the report. The current requirement for reporting frauds and irregularities to Audit Scotland was the reporting of all frauds and irregularities greater than £5,000 where frauds had 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 were, the Annual Fraud Report to the Audit and Risk Committee included all known frauds. In response to a question the Chief Officer Audit and Risk explained that the 'red' grading from KPMG in June 2015, which was given in the Annual Audit Report 2014/15 on behalf of Audit Scotland, in relation to the Council's participation in the National Fraud Initiative (NFI), was due to a capacity issue within the Council which resulted in no match investigation work having been started. Mr Swann, of KPMG, confirmed that during 2015/16 significant work had been carried out and that the Council's overall participation had been assessed as 'green' (satisfactory) in February 2016, which was given in the Interim Management Report 2015/16. The Chief Officer Audit and Risk advised she would continue to engage with Audit Scotland in respect of this NFI work. In response to further questions Members were advised of the most vulnerable areas for fraud.. In summary the Chairman indicated that the Committee would be concerned to look at any trends if these were to develop.

DECISION

NOTED:-

(a) **the counter fraud work undertaken to deliver the Council's Counter Fraud Strategy 2015; and**

(b) **the content of the Annual Fraud Report 2015/16.**

5. **AUDIT AND RISK COMMITTEE ANNUAL REPORT 2015/16 AND ANNUAL SELF EVALUATION.**

With reference to paragraph 5 of the Minute of 30 June 2015, there had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval of the Audit and Risk Committee Annual Report 2015/16, incorporating its annual self-assessment using the CIPFA Audit Committees Guidance. The Audit and Risk Committee Annual Report 2015/16 was appended as Appendix 1 to the report. The Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 9 May 2016, facilitated by the Chief Officer Audit & Risk. The self-assessments were appended to the 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. Members discussed the report and agreed that the tables detailed in Appendices 2 and 3 accurately represented the results of the self-assessment exercise completed on 9 May 2016.

DECISION

(a) APPROVED the Audit and Risk Committee Annual Report 2015/16 (Appendix 1 to the report) which incorporated its self-assessments (Appendices 2 and 3 to the report), using the CIPFA Audit Committees Guidance; and

(b) AGREED to present the Audit and Risk Committee Annual Report 2015/16 to Council on 25 August 2016 and then publish it on the Council's website.

6. **FINANCIAL REPORTING & SCRUTINY: WHY THE ACCOUNTS MATTER.**

There had been circulated for information copies of the Audit Scotland publication entitled 'Financial Reporting and Scrutiny: Why the Accounts Matter'. The document outlined the role of financial reporting, emphasising that effective planning, management and scrutiny of the use of public funds were a key part of a local authority's responsibility. The document outlined the role of the s95 officer, Elected Members and Auditor in the accounts process. With regard to developments in financial reporting in 2014/15 and the challenge faced by Councils to produce the accounts to tighter timescales external auditors had said that Councils generally met this challenge well. They also commented on some areas for improvement. In light of the key messages a list of questions were compiled and presented in an Appendix to the paper which were for Elected Members to consider as part of the accounts scrutiny and approval process. The expectation was that Audit and Risk Committee Members could use the questions in considering the accounts and annual audit report at their meetings. Members agreed that the publication was useful as a reference document for future use.

DECISION
NOTED

7. **SCOTTISH BORDERS COUNCIL DRAFT REPORTS AND ACCOUNTS 2015/16.**

7.1 There had been circulated copies of reports by the Chief Financial Officer on the draft Annual Reports and Accounts for Scottish Borders Council, Common Good Funds and Charitable Trusts, and Bridge Homes LLP. The report provided the Audit and Risk Committee with an opportunity to scrutinise the draft Annual Reports and Accounts 2015/16 for Scottish Borders Council and associated Group Accounts prior to submission for External Audit Inspection by the statutory deadline of 30 June 2016. A summary of the draft Annual Reports and Accounts was given at the meeting by the Chief Financial Officer, David Robertson. Handouts were also provided to draw attention to the key highlights. Mr Robertson referred to the protocols and timeline associated with the overview of accounts as set out in the Local Authority Accounts (Scotland) Regulations 2014. This indicated that, following audit and a public inspection period the finalised Audit report and Audited Accounts would be presented to the Audit and Risk Committee for approval on 26 September 2016 before going to Council on 29 September 2016 and subsequent publication.

7.2 The draft Annual Report and Accounts 2015/16 for Scottish Borders Council was attached as Appendix 1 to the report. Members were advised that the revenue out-turn from Departmental Activity showed £1.284m underspend which would return to Reserves. Savings achieved of £7.8m represented 85% on a permanent basis indicating that the Council was on track to deliver the savings required. An analysis of the sources of revenue funding and revenue expenditure by Department was provided. With regard to Significant Trading Operations it was noted that SBc Contracts had achieved a cumulative net surplus over 3 years of £1.510m. Mr Robertson explained that in 2015/16 46.6% of total turnover was generated by external work which was 38% down on the previous year, when a number of significant projects connected to the Borders Railway were completed. The best operating model for SBc Contracts was being looked at as part of the Roads Review currently being carried out. Mr Robertson's summary went on to refer to key changes within the General Fund balances and he answered questions in relation to these. The Balance sheet showed that the net assets of the Council excluding Pensions Liabilities were £208.5m at 31 March 2016. Including Pensions Liabilities the figure was £66m showing an increase of £48.6m from the previous year. Included in the current liabilities was a provision of £4m for decommissioning of the landfill sites. With regard to the 2015/16 capital outturns there had been a total expenditure of £45m with timing movement of £2.2m and underspend of £0.8m. In concluding discussion on the Scottish Borders Council Annual Report and Accounts the Chairman complemented officers on the clear presentation of the Report and Accounts and the way in which these were linked to performance-related information.

7.3 Mr Robertson went on to highlight key points within the Group Accounts. Senior Finance Officer, John Yallop, was also in attendance to answer questions. Attached as Appendices to the report were the 2015/16 draft Reports and Accounts for the SBC Common Good Funds; Education Trust; Welfare Trust; Community Enhancement Trust; 77 Charity Funds; Ormiston Trust; Thomas Howden Wildlife Trust; and 174 non-registered trusts. Mr Yallop explained that work was ongoing to attempt to amalgamate the 174 non-registered trusts although some were geographically restricted. With regard to the nine Common Good Funds total net assets were £13.9m (£11.0m fixed assets). Also circulated were the unaudited annual report and financial statements for Bridge Homes LLP for the year ended 31 March 2016. Property value of £2.7m (23 units) was funded by £2.3m SBC loan and £0.4m Affordable Housing contribution. There had been a small 2nd year trading loss of £0.008m. Members discussed the accounts and received clarification from officers where requested.

DECISION

(a) NOTED the Draft Annual Report and Accounts 2015/16 for Scottish Borders Council and associated Group Accounts; and

(b) AGREED to support their submission for review by the External Auditors.

7.4 **Draft SB Cares Annual Report and Accounts 2015/16**

There had also been circulated copies of a report by SB Cares Finance and Commercial Director on the Reports and Accounts for Scottish Borders Supports LLP and Scottish Borders Cares LLP. The Finance and Commercial Director, Debbie Collins, was in attendance to present the report and answer questions. The report explained that the External Auditors KPMG carried out the audit of SB Cares accounts in June 2016 to provide support to the new organisation, launched on 1 April 2015, to compile its first set of draft reports and accounts. Minor recommended changes by KPMG had been incorporated in the reports being provided for scrutiny by the Audit and Risk Committee. A final review of the Report and Annual accounts would be completed by KPMG in August 2016 where any final adjustments would be agreed before signed accounts were submitted to Scottish Borders Council. The Reports and Accounts for Scottish Borders Supports LLP and Scottish Borders Cares LLP were attached to the covering report as Appendices 1 and 2 respectively. In the period ended 31 March 2016 SB Supports LLP generated a loss of £25k. Overall SB Supports performed as expected for its first year of trading in being able to deliver a contribution to Scottish Borders Council of £480k. SB Cares had generated a loss of £1.294m. Ms Collins confirmed that this loss was connected to pension liability which was guaranteed by Scottish Borders Council. Overall SB Cares LLP had performed as expected for its first year of trading, delivering services through its contract with SB Supports LLP.

DECISION
NOTED:-

(a) **the Draft Annual Report and Accounts 2015/16 for SB Cares LLP; and**

(b) **that External Auditors had completed an initial audit of SB Cares Annual Report and Accounts.**

8. **PENSION FUND ANNUAL REPORT AND ACCOUNTS 2015/16.**
There had been circulated copies of a report by the Chief Financial Officer providing an opportunity for the Audit and Risk Committee 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. The list of elements that must be contained within the Annual Report and Accounts, according to the Local Government Pension Scheme Amendment (Scotland) Regulations was provided within the report. The Report and Accounts, which met these requirements, was attached as an Appendix to the report. Following Audit sign-off the final Report and Accounts would be circulated to the joint Pension Fund Committee and Board. The Annual Report would also be made available for public inspection for a 3 week period commencing 30 June 2016. Councillor White, Chairman of the Pension Fund Committee, highlighted the main points of the Report. He confirmed that the new governance arrangements which commenced from 1 April 2015 had settled in and that joint meetings of the Committee and Board had been productive and informative due to the positive engagement of all members. Also during the past year the Procurement Sub Group had been fully engaged in the key procurement of a new Investment Advisor. Despite the level of volatility across markets during 2015 the Fund had managed to remain broadly at the 31 March 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.

DECISION

(a) **NOTED the Draft Annual Report and Accounts 2015/16 for Scottish Borders Council Pension Fund; and**

(b) **AGREED to support its submission for review by the External Auditors.**

MEMBERS
Due to a commitment to attend another meeting Councillors Gillespie, Nicol and White left the meeting leaving the Committee without a quorum. Discussion continued on an informal basis, about the first year of operation of SB Cares, between the remaining members and officers until the Chairman closed the meeting.

The meeting concluded at 1.05 pm

cutting through complexity

Scottish Borders Council

Annual audit report to the Members of Scottish Borders Council and the Controller of Audit for the year ended 31 March 2016

16 September 2016

Agenda Item 5a

Contents

About this report

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

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

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

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

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

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie, who is the engagement leader for our services to Scottish Borders Council, telephone 0131 527 6682 email: hugh.harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Executive summary

Audit conclusions

●	We expect to issue an unqualified audit opinion on the financial statements of Scottish Borders Council ("the Council") and of its subsidiaries, following receipt of the management representation letters.	Page 12

Financial position

●	The Council again demonstrated progress against the five year plan first agreed in 2013-14. The budget underspent by £1.3 million and a surplus was generated on the overall provision of services of £48.5 million in 2015-16 (2014-15: £44.9 million surplus), primarily as a result of the actuarial gain on pension assets/liabilities.	Page 6 - 10
●	The 2015-16 capital program reported an underspend of £3.0 million compared to the approved capital budget. This primarily reflects slippage; and this spend is carried forward to the 2016-17 plan (2014-15: £3.4 million carried forward into 2015-16).	
●	The five year financial strategy and budget for 2016-17 was approved by Council in February 2016. The five year revenue plan assumes the drawdown of £1.0 million in 2016-17 from reserves. A further draw down is planned in 2017-18, to be repaid in the following two financial years.	
●	Efficiency savings of £7.8 million were delivered during 2015-16, of which 85% are permanent, recurring savings.	

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Financial statements and related reports

●	Draft financial statements were received by the start of audit fieldwork and were supported by high quality working papers. This included the management commentary.	Page 12 - 21
●	We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in our audit strategy and plan document. We concur with management's accounting treatment and judgments.	
●	Two unadjusted audit differences were raised in respect of fixed assets with a net effect of £1.2 million on the financial statements. We have no matters to highlight in respect of: adjusted audit differences, independence and changes to management representations.	

Wider scope

●	We considered the wider scope audit dimensions and concluded positively in respect of financial sustainability, financial management, governance and transparency and value for money.	Page 22 – 31

Purpose of this report

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

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

Audit Scotland's Code of Audit Practice sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial management and sustainability, governance and transparency and value for money.

Accountable officer responsibilities

The Code of Audit Practice sets out the Council's responsibilities in respect of:

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

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code of Audit Practice. Appendix seven sets out how we have met each of the responsibilities set out in the Code of Audit Practice.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

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

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

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to members and our presentation to the Audit and Risk Committee, together with previous reports to the Audit and Risk Committee throughout the year, discharges the requirements of ISA 260.

Financial position

Financial position

Sector overview

In common with other local authorities, the Council has faced challenges over the past few years, reflecting public sector reform and continued financial pressures. Councils have faced real term funding decreases and increasing demand for services. As highlighted in Audit Scotland's report *An Overview of Local Government in Scotland,* for 2016-17 Councils' revenue funding from Scottish Government will reduce by 5% in cash terms. This takes the real term reduction in funding since 2010-11 to 11%. Funding for 2017-18 onwards has not yet been confirmed, creating challenges for long term financial planning. Councils are faced with further financial pressures with increasing pension costs, living wage and equal pay pressures. In addition, service demand is growing due to demographic changes and transformation in respect of health and social care provision.

In response the Council has developed a five year plan and an ambitious transformation programme has been agreed with the aim of delivering long-term financial benefits, modernising the Council and ensuring financial sustainability. Along with a number of other councils, plans are in place to develop a more effective approach to workforce planning that maintains the knowledge and skills needed to effectively manage the local authority while reducing the overall size of the workforce. We comment on the Council's approach to workforce planning on page 31.

2015-16 saw a change in the process of shared risk assessments ("SRA") and how the local area networks ("LANs") work with Local Authorities. The 2016-17 local scrutiny plan highlights the Council's progress in improving financial sustainability. The plan outlines the scrutiny activity planned for 2016-17, including the implementation of the revised Best Value approach from October 2016.

Financial position

Overall in respect of financial result for the year, revenue expenditure was £1.3 million under the revised budget and the Council achieved a surplus on the provision of services of £4.8 million. Savings of £7.8 million were delivered during 2015-16, of which 85% are permanent, recurring savings. This is an improvement on the prior year when 80% of efficiency savings were achieved permanently.

A contribution to usable reserves of £2.1 million was made in the year and, following the actuarial gains on the pension net assets/liabilities, the overall net comprehensive income surplus is £48.5 million. An extract of the comprehensive income and expenditure statement is shown below. In addition, we set out on the following pages the financial positon in terms of the balance sheet, reserves and future plans.

Comprehensive income and expenditure statement

	2015-16 £000	2014-15 £000	Variance £000
Total income	357,955	342,850	15,105
Total expenditure	(353,169)	(342,671)	(10,498)
Surplus on the provision of services	4,786	179	4,607
Other comprehensive income and expenditure	43,758	44,745	(987)
Total comprehensive income and expenditure	48,544	44,924	3,620

Source: KPMG analysis of the Council's annual accounts 2015-16.

Financial position (continued)

Financial position: balance sheet

Balance sheet	2015-16 £000	2014-15 £000	Variance £000
Long term assets	451,775	429,786	21,989
Current assets	56,574	45,396	11,178
Current liabilities	(56,116)	(53,568)	(2,548)
Net current assets / (liabilities)	458	(8,172)	8,630
Long term liabilities	(243,780)	(237,225)	(6,555)
Net assets excluding pension liability	**208,453**	**184,389**	**24,064**
Pension liability	(141,592)	(166,072)	24,480
Net assets including pension liability	**66,861**	**18,317**	**48,544**

Source: KPMG analysis of the Council's annual accounts 2015-16.

The Council's balance sheet was strengthened by £48.5 million in year. This was primarily due to the revaluation of technical and surplus properties as at 1 April 2015 and a decrease in the pension liability. The pension liability movement is outlined further at appendix four.

Borrowing

The Council's capital expenditure is largely funded through borrowing. In Audit Scotland's 2015-16 benchmarking of all local authorities in Scotland, the Council continues to be in the lowest third of local authorities in terms of level of net external debt when taken as a proportion of revenue expenditure (63%). The Council has the tenth lowest net external debt per head of population at £1,882 per head (£1,906 per head). We recognise that the benchmarking does not differentiate between demographic differences or the split between general services and housing related borrowing if relevant.

Capital program

Total capital expenditure in 2015-16 was £45.0 million, an underspend of £3.0 million against the revised budget (2014-15: £3.4 million underspend). The underspend is made up of a £2.2 million timing movement into future years and an underspend of £0.8 million due to phasing over a number of projects. Capital spend is broken down by £4.2 million on Chief Executive, £7.1 million on People and £33.7 million on Place. Capital spend has increased by 43%, up from £31.4 million in 2014-15, therefore the level of slippage in the context of the increased level of investment has decreased from the prior year. However, capital budgets should continue to be scrutinised and closely monitored as a result of the history of underspends in recent years.

The most significant area of spend in 2015-16 was on Flood protection schemes; £17.9 million. Other areas of significant expenditure in the year are; £5.1 million on road and bridge maintenance, £1.9 million on Duns Primary School and £1.6 million on the Galashiels transport interchange.

In addition to capital expenditure of £45.0 million on fixed and intangible assets, 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, with £1 million borrowed in year.

Of the £45.0 million capital spend, 25% of this was provided by the Council's capital prudential borrowing, 62% was provided through Scottish Government grants with the remainder funded by reserves, external grants and capital receipts.

Financial position (continued)

The table below summarises the Council's reserves and significant movements in year.

Account	Purpose	Balance	Movement in Year
General Fund	Principal useable reserve of the Council that covers most areas of activity.	£23.2 million	£6 million transferred to fund in 2015-16 offset by transfer of £1.8 million to other reserves in year, which gives a net increase of £4.2 million in fund in year.
Capital Fund	This fund is credited with the receipt of property sales and developer contributions; funds can be used for capital expenditure or to make payments of loan principal.	£6.6 million	Net decrease of £1.0 million made up of sale proceeds and transfer from departments into the Plant & Vehicle Fund (£3.0 million), offset by the purchase of plant and vehicles and use of capital receipts applied during the year of £4.0 million.
Insurance Fund	A fund to meet the cost of premiums for a range of external insurance cover and the costs of claims not covered by external insurance; receives contributions from Council Services.	£1.3 million	Only movement in year is transfer in of £0.007 million from the general fund.
Capital Adjustment Account	Absorbs the timing differences arising from arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets.	£118.5 million	Net movement of £15.1 million in year.
Financial Instrument Account	Absorbs the timing differences arising from arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting gains per statutory provision.	£5.2 million	£0.2 million movement in year due to adjustments between accounting basis and funding basis under regulation.
Revaluation Reserve	Contains the gains made by the Council on increases in fixed asset value; only contains gains since 1 April 2007 (when the fund was established).	£70.2 million	Increase of £4.5 million in year, mainly due to revaluation gains offset by depreciation adjustments.
STACA Statutory Mitigation Act	Absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not take in the year i.e. annual leave carried forward.	£6.2 million	£1 million increase due to adjustments between accounting basis and funding basis under regulation (specifically the employee statutory adjustment).
	Total	£231.2 million	

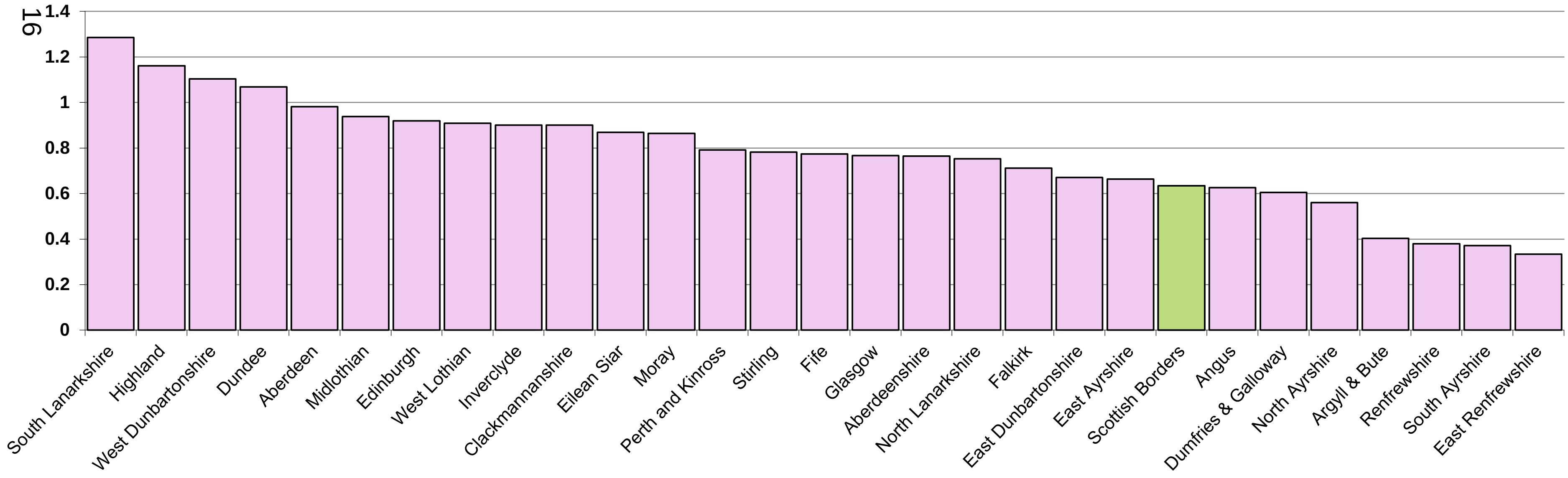
In benchmarking undertaken by Audit Scotland from analysis of the 2015-16 unaudited financial statements of Scotland's 32 local authorities, the Council had the eighth lowest carried forward usable revenue reserves as a proportion of net revenue and has the thirteenth lowest general fund balance carried forward. We noted however that the Council keeps the level of reserves under regular review. The review is based upon an assessment of the corporate risk register, the application of financial amounts to each risk, overlaid by the likelihood of the risk occurring.

The Corporate Financial Risk Register was considered by the Council in February 2016 and at this date the accumulated financial risk in the Risk Register was assessed to be £11.5 million. The General Fund useable reserve (non-earmarked) balance at 31 March 2016, at £5.6 million, is sufficient to cover 48.9% of risks identified at that time.

This has reduced from 69.5% in the prior year, however management consider this level of cover appropriate because the risk of all risks crystallising at the same point of time is sufficiently remote. The recommended balance to be maintained on the general fund reserve will continue to be monitored through the Corporate Financial Risk Register on an annual basis. We discuss financial sustainability further on page 27.

Page 16

2015-16 carried forward useable revenue reserves as a proportion of net revenue



Source: Audit Scotland analysis of local authority 2015-16 financial statements
Please note that it was necessary to omit Orkney and Shetland as their levels of reserves are much higher than other councils and it would distort the scale used.

Financial position (continued)

Financial plans 2016-17 and beyond

The budget for 2016-17 was approved by the Council in February 2016 and this included the five year Financial Strategy. This has been set on the assumption that council tax will remain frozen in each year of the budget, pending a longer term national review of local government funding.

The Council will continue to invest in infrastructure through a sustainable capital programme financed by £20.5 million loan charges per annum.

The Council will focus on preventative revenue and capital spend, and maintain unallocated reserves of £5.6 million for 2016-17 in line with the assessed risk register.

The finance strategy recognises that the Council's budget is targeted so that it provides the most effective possible stimulus to the wider economy, protects the Scottish Borders environment and those most vulnerable in society and maximises the contribution for local collaboration arrangements including the establishment of the new Health and Social Care Integration Joint Board.

Going concern

Due to the level of unallocated general fund reserves, the budgeted use of reserves going forward and the reduction in government funding, we considered the long term financial sustainability of the Council.

The Council has demonstrated sound progress against its annual financial plan over the period of our audit appointment and appears to have appropriate plans in place to respond to future financial challenges. A key to ensuring financial stability is the corporate transformation programme, which is essential to the continued delivery of a balanced financial plan.

The Council had net assets including pension liability of £66.9 million (2014-15: £18.3 million) as at the balance sheet date. Net assets increased on 2014-15 by £48.6 million, with the majority of the movement relating to a decrease in the pension liability (£24.5 million).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. We agree with this assessment as the Scottish Government has released its finance circular for the 2016-17 financial year, which shows that the Council will receive £213.0 million. The Council will also continue to raise revenue from Council tax, other grants and through charging for some of its services.

Recently, the Council has underspent against its budget, which it revises throughout the year to reflect and address emerging issues. The delivery of efficiency savings on a permanent basis has also improved over recent years to 85% (2014-15: 80%), with the remaining 15% achieved by alternative measures.

This provides comfort over the Council's ability to raise enough revenue to cover the cost of providing services over the period of assessment to a year from the date of signing the financial statements. Furthermore, the Council holds useable reserves of £31.2 million as at 31 March 2016, which provides an element of comfort if there are unforeseen circumstances.

Conclusion

The Council reported a surplus on the provision of services, financial performance was ahead of budget in 2015-16 and there was a contribution to reserves. The Council maintained a net assets position and has available borrowing facilities.

We are content that the going concern assumption is appropriate in light of the matters set out above.

Financial statements and accounting

Audit opinion

Our audit work is complete subject to receipt of the management representation letter and update of subsequent events. Following approval of the annual accounts by the Audit and Risk Committee we intend to issue an unqualified opinion on the truth and fairness of the state of the Council’s affairs as at 31 March 2016, and of the surplus for the year then ended. There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (“the Code”), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit of that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

Two unadjusted audit differences have been raised in respect of fixed assets. No adjusted audit differences were identified. These adjustments are outlined further at appendix one.

Written representations

There are no changes to the standard representations required for our audit from last year.

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that planning materiality for 2015-16 of £6.4 million (2% of expenditure) remained appropriate. We report all misstatements greater than £250,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the Chief Officer for Audit and Risk and reviewed internal audit reports as issued to the Audit and Risk Committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgments made by management and considered them for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended Audit and Risk Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

Management engaged with us in advance of preparing the financial statements to discuss areas of judgment upfront. Draft financial statements were provided at the start of the audit fieldwork on 4 July 2016. In line with statutory guidance, the draft financial statements were presented to the Audit and Risk Committee in June 2016.

Under the Local Authority Accounts (Scotland) Regulations 2014 a committee whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor by 31 August 2016.

Significant risks and other focus areas in relation to the audit of the financial statements

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

Significant risks:

- fraud risk from income recognition;
- management override of controls fraud risk; and
- financial position.

Other focus areas:

- transport infrastructure assets;
- provisions; and
- retirement benefits.

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

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from income recognition Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. Part of the Council's income is received from non ring-fenced government grants. As government grants are agreed in advance of the year, with adjustments requiring Government approval, we do not regard the risk of fraud from this revenue recognition as significant. The other major sources of income are from annual local taxes and rental income (council tax and non-domestic rates). These revenues are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as revenue. This minimises the level of judgment required in revenue recognition by management and we do not regard the risk of fraud from revenue recognition as significant. We consider the fraud risk from recognition of other income to be significant. Other income relates primarily to sales or service income; we consider there to be judgment involved in recognising this income.	Our testing over the recognition of other income comprised: ■ performing controls testing over budget monitoring and bank reconciliations. We found these controls to be operating effectively; ■ comparing income against budget and prior year, and seeking explanations and supporting documentation for unexpected movements; ■ using computer assisted auditing techniques to select a sample of other income streams to agree to supporting documentation; ■ performing cut-off testing to verify that income and associated debtors are recorded in the correct accounting period; and ■ reviewing pre and post year end bank statements to ensure material items of income are recorded in the correct period.	We found that controls around income are operating effectively and no exceptions were noted in our testing. We are satisfied that income is recognised appropriately, in the correct financial year and in line with the Code.

Financial statements and accounting
Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Financial position Delivering services in the environment of continued financial pressures and funding uncertainty remains a challenge for the sector. Recently the Council has underspent against budget in total. In 2015-16 the Council recorded an underspend of £1.3 million against the final, revised budget (2014-15: £0.4 million). In the aftermath of a number of storms in December 2015 and January 2016 Scottish Borders Council has notified the Scottish Government of their intention to make a claim for Bellwin funding to support recovery efforts. Whilst the Council undertakes robust financial planning, financial sustainability is a key risk due to the inherent risk in the sector environment.	We updated our understanding of the Council's financial position and year end outturn position through review of quarterly reports and other management information. We commented on this on pages 6 to 10. We performed controls testing over the budgeting process including the monitoring of budgets throughout the year. We performed substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget and investigating significant variances.	We found that management is adequately monitoring the financial position through regular internal reporting. This is communicated to members on a regular basis. We have commented on financial reporting as part of our consideration of governance and transparency on page 29. An initial claim totalling £3.9 million will be made for Bellwin funding in September 2016, with a subsequent claim for the remaining costs made at a later date. We note the Council's required contribution towards these recovery costs is less than £1 million. Our work on grant claims is summarised at appendix three. Management applied the going concern assumption in preparing the annual accounts. We considered this assumption on page 10 and concluded it is appropriate.

FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Provisions Management has considered the future capital costs and revenues associated with the decommissioning of open cells at its Easter Langlee landfill site, and a provision was recognised on the balance sheet at 31 March 2015 of £4.0 million. The Council received appropriate advice from internal and external specialists and we will continue to monitor the appropriateness of this provision. The Council has considered whether a provision should be made related to contributions related to the Borders Railway now that it is obliged to begin making payments to the Scottish Ministers. We concur with the view that no provision is required and we will continue to monitor the appropriateness of this conclusion as contributions are collected. Following a European Court of Justice ruling in May 2014, employers are required to pay holiday pay to staff at a rate commensurate with any commission or over time that they regularly earn, instead of at their basic pay level.	Under IAS 37 a provision should be recognised when: ▪ an entity has a present obligation as a result of a past event; ▪ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and ▪ a reliable estimate can be made of the amount of the obligation. Our year end audit procedures included reviewing the Council's models for calculating potential liabilities for both landfill remediation and the Borders Railway and considering if these remain appropriate or if any updates were required. We have reviewed and challenged the underlying assumptions, in particular: ▪ for landfill remediation forecast costs, and the discount rate utilised; and ▪ For the Borders Railway, the developer contributions received and forecast to be received and the discount rate utilised. We monitored legislative changes on holiday pay and considered the Council's position. Management does not consider that the Council has a present obligation in respect of holiday pay and that the financial implications for the Council are unclear. therefore no provision is required. In all cases, we met with Council employees outside of the finance function to corroborate management's assertions. We also discussed other risk areas in respect of provisions, such as equal pay, to verify no further provisions are required.	We found that: ▪ we concur with management's view that the provision for landfill remediation at 31 March 2016 remains appropriate. As in the prior year, we noted that certain of the assumptions used in the calculation of the provision, principally those relating to anticipated income during the period of monitoring and aftercare and the discount rate used, to be out of line with our expectations. These differences offset however and overall we consider the level of provision held to be appropriate. Management will continue to monitor this; ▪ the Borders Railway model and underlying assumptions continue to be appropriate. We concur with the view that no provision is required as at 31 March 2016; and ▪ management has implemented actions to mitigate the impact of the legislation in relation to holiday pay and consider it to be unlikely that there will be a material settlement. We concur with management's assessment that no provision is required as at 31 March 2016 and that as the financial implications are sufficiently unclear, a contingent liability is the most appropriate treatment.

Financial statements and accounting
Other focus areas (continued)

FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Transport infrastructure assets The 2016-17 Code will adopt requirements of the Code on transport infrastructure assets (“the transport code”), which requires measurement of these assets on a depreciated replacement cost basis. This will represent a change in accounting policy from 1 April 2016. Local authorities are advised to have implemented a robust project plan through 2015-16 to ensure preparedness for the requirements of the 2016-17 Code. However there is no requirement to report on transport infrastructure assets in the 2015-16 financial statements.	We considered the Council’s plan for the requirements of the transport code, including meeting with Council staff from the asset and regulatory team and reviewing the whole of government accounts (“WGA”) submission. We evaluated the extent to which the Council is prepared for the change in accounting policy.	In respect of readiness for the 2016-17 Code, we consider the Council is in line with other local authorities in having completed the transport infrastructure asset valuations for WGA. The Society of Chief Officers for Transportation in Scotland (SCOTS) is providing information to assist in the process. An ‘asset valuation template’ which all local authorities are using to ensure consistency has been provided.
Retirement benefits The Council accounts for its participation in the Scottish Borders Pension Fund in accordance with IAS 19 *Retirement Benefits*, using a valuation report prepared by actuarial consultants. The Council’s actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.	Our work consisted of: ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the results of which are outlined on page 38; ■ testing of scheme assets and rolled-forward liabilities; ■ testing of the level of contributions used by the actuary to those actually paid during the year; ■ testing of membership data used by the actuary to data from the Council; and ■ agreeing actuarial reports to financial statement disclosures.	We are satisfied that the retirement benefit obligation: ■ is correctly stated in the balance sheet as at 31 March 2016; ■ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ■ the assumptions used in calculating this estimate and management’s judgements are appropriate and within what we consider to be an acceptable range. The closing liability decreased by £24.5 million compared to 2014-15, primarily from an increase in the discount rate and reduced rates of increase in pensions and salaries. We set out further information in respect of the defined benefit obligation in appendix four.

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REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015. A draft management commentary was included within the unaudited financial statements. This outlines the performance overview and the future plans and developments in line with the Council Plan.	We are satisfied that the information contained within the management commentary is consistent with the financial statements and provides financial as well as other performance information regarding the operation of the Council, its wider achievements and areas for development. We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report. As in the prior year, we note that the management commentary was of a high quality.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared. We make one recommendation in respect of the retention of documentation relating to individual exit packages.
Annual governance statement	The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, internal controls, the work of internal audit and risk management arrangements. It analyses the efficiency and effectiveness of these elements of the framework.	We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code. The Code adopted IFRS 13 *Fair Value Measurement* for the first time in 2015-16. This requires surplus assets to be measured at fair value. Management perform an exercise annually to identify and value surplus assets. This resulted in a decrease in the value of surplus assets of £0.3 million.

Significant accounting estimates relate to the present value of defined benefit obligations and impairment of non current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed on page 38.

Non current asset impairment is calculated using the valuation reports produced by the Council's internal expert. We used our internal valuation specialists to assess the assumptions used in these reports. We did not identify indications of management bias. We make one recommendation in relation to fixed assets as set out in appendix five.

Recommendation one

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

Future accounting and audit developments

From 2016-17 the Code will adopt requirements of the Code on transport infrastructure assets ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. This is included as an audit focus area and is discussed in more detail on page 17.

The 2016-17 Code also includes a new requirement for an expenditure and funding analysis, as well as revised formats for the comprehensive income and expenditure statement and movement in reserves statement. The expenditure and funding analysis provides a reconciliation of the statutory adjustments between the financial position on a funding basis and the surplus or deficit on the provision of services. The management commentary should refer to the outturn provided in the expenditure and funding analysis. The comprehensive income and expenditure statement line items have been amended to require authorities to present the service analysis on the basis of the organisational structure under which they operate. Bodies are therefore not required to follow the service expenditure analysis in the *Service expenditure reporting code of practice (SeRCOP).*

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

Group accounts

Our audit appointment of the Council extends to the audit of the Scottish Borders Integration Joint Board, the Common Good Funds and the charitable trusts, as set out in section 106 of the Code of Audit Practice. Other group entities include:

Subsidiaries	Associates
SB Cares LLP	Borders Sport and Leisure Trust (BSLT)
SB Supports LLP	Jedburgh Leisure Facilities Trust (JLFT)
Bridge Homes LLP	

Full audit procedures have been carried out over the Council's subsidiaries. All of the entities above were considered as part of our audit of the Group Accounts. The audits for BSLT and JLFT were carried out separately by another firm; these entities have been considered as part of our consolidation work.

Charitable Trusts and Common Good Funds

As the Charitable Trusts and Common Good Funds have trustees who are members of the Council and they registered with the Office of the Scottish Charity Regulator, an audit is required in line with the Local Government (Scotland) Act 1973 (section 106 charities). The Charities SORP for the Financial Reporting Standard for Smaller Entities ('FRSSE') was effective from 1 January 2015. The charities have transitioned to this SORP for the preparation of the 2015-16 financial statements.

Conclusion: Some presentational adjustments were required to align the disclosures in the accounts to the new FRSSE based SORP. No adjusted or unadjusted audit differences were raised. We anticipate issuing an unqualified audit opinion in respect of the Charitable Trusts and Common Good Funds.

Bridge Homes LLP

The Council, in partnership with Scottish Futures Trust Investments Ltd ("SFT"), has 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 £18.8 million along with a £3.3 million contribution from the Councils' Affordable Housing Investment Budget.

Accounts are prepared using the Financial Reporting Standard for Smaller Entities (FRSSE). The FRSSE has been withdrawn from 1 January 2016 and replaced by either FRS 105 (The Financial Reporting Standard for the Micro-entities Regime) or Section 1A of FRS 102.

Conclusion: The audit concluded the accounts were presented in line with the required legislation alongside appropriate disclosures with only some presentational adjustments required. We anticipate issuing an unqualified audit opinion in respect of Bridge Homes LLP.

SB Cares

SB Cares is registered as a Limited Liability Partnership wholly owned by Scottish Borders Council. SB Cares works in partnership with the Council to provide adult social care services on their behalf. The Council decide where to reinvest any profits made by SB Cares as the only shareholder. Performance is monitored by a sub-committee of Scottish Borders Council.

FRS 101 has been followed in preparing the SB Cares LLP financial statements.

Conclusion: We are satisfied that the accounting policies adopted under FRS 101 are appropriate for the business. Following approval of the financial statements by the Members we anticipate issuing an unqualified opinion on the financial statements of each LLP as at 31 March 2016. There are no matters identified on which we are required to report by exception.

Scottish Borders Integration Joint Board

In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This required all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016. The Scottish Borders integration joint board (‘IJB’) was established in April 2015 and the IJB became operational on 6 February 2016.

Whilst there was no transfer of functions until 1 April 2016, the IJB was required to prepare financial statements for 2015-16. Guidance was issued by The Local Authority (Scotland) Accounts Advisory Committee (“LASAAC”) in September 2015 on the expected content of the IJB accounts. The 2015-16 audit was carried out by KPMG and a separate annual audit report has been produced.

Conclusion: The audit concluded the accounts were presented in line with the required legislation as noted above alongside appropriate disclosures. We anticipate issuing an unqualified audit opinion in respect of the IJB.

Wider scope

Wider scope

Audit dimensions introduction

Introduction

The Code of Audit Practice frames the wider scope of our audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value.

It remains the responsibility of the audited body to ensure that they have proper arrangements in place across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these arrangements.

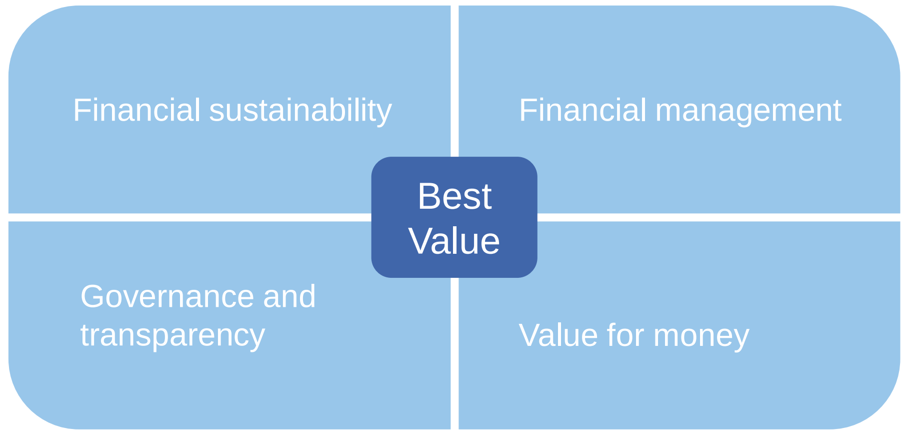
During our work on the audit dimensions we considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.

Audit work and conclusions

We summarise over the next few pages the work we have undertaken in the year to obtain assurances over the arrangements in place for each audit dimension and our conclusions on the effectiveness and appropriateness of these arrangements.

The following pages set out those risks we identified during our audit planning stage, any emerging risks during the course of audit work and our overall conclusion on each audit dimension.

Where we have found arrangements to not be effective or to be absent we have provided further narrative on the following pages and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



Wider scope

Audit dimensions risk map and conclusions

Financial sustainability (Page 27)

The revenue and capital budgets for 2016-17 were approved in February 2016.

The Council works with a five year revenue plan which is rolled forward each year, when updates are made to take into account information from the Scottish Government.

Financial management (Page 25)

The Council's finance department has appropriate financial capacity for current operations. Budgetary processes are supported by an internal control environment which our testing found to be operating effectively, albeit with some minor control deficiencies identified. We have provided a yearend update on these at appendix six. Good progress has been made in the implementation of previous recommendations.

Revenue spending was inline with budget, with minor underspend of £1.3 million. The Council underspent against the capital budget in 2015-16 by £3 million.

Uncertainty over future funding

Scottish Borders Council

Governance and transparency (Page 29)

The Council has sound and well-established governance arrangements that ensure effective scrutiny and challenge. Papers and agendas are available online through the Council website for transparency.

Risk registers are regularly updated and scrutinised by management and the Audit and Risk Committee.

There are appropriate arrangements for collecting, recording and publishing performance information.

Value for money (Page 28)

The Council achieved 85% of its planned efficiency savings for 2015-16 on a permanent basis, with the remaining 15% delivered by alternative measures.

The Council is also planning a number of longer term efficiency savings options through its corporate transformation programme.

Value for money is considered in workforce planning, and all staff changes are required to be assessed for savings.

We consider that the Council has sufficient procedures for ensuring Best Value.

Risks identified during our audit planning procedures

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion on page 24 is derived from the following audit tests, carried out to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget setting and monitoring processes within the Council.* We found these to be robust, with regular accurate reporting and scrutiny by senior management and the Executive Committee. Detailed discussion occurs at monthly Corporate Management Team meetings, with quarterly presentation to the Executive Committee. Budgets are revised as required to incorporate emerging issues. We consider that financial reporting is performed in a timely manner, however there is scope to improve the accuracy of forecasted timelines for capital projects.
- The Council takes a strategic view on budget setting, for example incorporating expected funding reductions (based on averages across recent years) into the expectations for future funding from Scottish Government and setting a number of budgets based on different scenarios.
- *Consideration of the finance function and financial capacity within the Council.* We noted that the financial processes are efficient and effective, and there is adequate support from senior management. Finance team members have appropriate skills, capacity and capability to support the Council and effectively manage the organisation. We noted that financial responsibility is concentrated and it is likely that with the establishment of the health and social care integration joint board, responsibilities for the finance team will increase and capacity may be further stretched.
- We are also required to provide specific conclusions on the areas opposite, which relate to financial management and support our overall conclusion on this wider scope area.

Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Details of controls tested were reported to those charged with governance in our interim audit report. We identified control deficiencies around journals authorisation, general IT controls and bank reconciliations. These are discussed further in appendix 6, however we note that significant improvements were made regarding the bank reconciliations control which is now operating effectively.

A summary of the completion of prior year and interim audit recommendations is provided at appendix six. Nine 'grade three' (minor) recommendations were raised in 2014-15 and during our 2015-16 interim audit; all of which are completed or ongoing.

Conclusion: No significant issues have been noted with only minor control deficiencies identified as outlined in appendix six.

National Fraud Initiative

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

We submitted a return to Audit Scotland summarising our conclusions on the Council's participation in NFI. The questionnaire covered reporting of NFI progress and outcomes, recording of results of investigations in the NFI system, action taken for alleged fraud cases and the overall engagement of the Council with NFI.

Conclusion: The return concluded that the Council is engaged in the NFI process and is utilising resources appropriately to respond to the outcomes, we have seen an improvement to 2014-15. No alleged or actual fraud was identified through NFI.

Arrangements for the prevention and detection of fraud and error

Testing over the processes to prevent and detect fraud and error included:

- *Review of policies against best practice guidance and examples.* We reviewed a number of internal policies and the Council's policies were found to be in line with relevant guidance.
- *Consideration of the accessibility of policies to staff and members and if the policies had been implemented effectively.* The policies and processes outlined above are readily available to staff and had been implemented effectively.
- *Consideration of the work of internal audit in the prevention and detection of fraud.* Internal audit is responsible for the NFI exercise within the Council. We have considered NFI arrangements on page 25.
- Internal audit have also established a Corporate Fraud Working Group which meets quarterly. The Corporate Counter Fraud Strategy and the revised Corporate Counter Fraud Policy Statement were approved by the Council in August 2015.

Conclusion: The Council has appropriate arrangements to prevent and detect fraud. Internal audit takes an active role in fraud prevention and detection.

Standards of conduct and the prevention and detection of corruption

Testing over the processes to prevent and detect corruption included:

- *Review of policies (codes of conduct for staff and Councillors, the whistleblowing policy and registers of interests) against best practice guidance and examples.* The Council's policies were found to be in line with relevant guidance.
- *Consideration of the accessibility of policies to staff and members and if the policies had been implemented effectively.* The policies and processes tested are readily available to staff and had been implemented effectively.
- *Testing of completeness of registers of interests of senior staff and members.* Registers of interests for senior management and members were complete and up to date. There were no instances of related party transactions outside the normal course of business identified.

Conclusion: The Council has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

Wider scope
Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

In considering financial sustainability of the Council we performed the following work:

- *Reviewing the financial position of the Council as at 31 March 2016 and future budgets and forecasts*. The Council underspent against budget in 2015-16 and there are sufficient reserves to support future operations. Savings are identified on an ongoing basis.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability.* The Council has a five year financial plan which is updated each year to reflect changes in the local government finance settlement, cost pressures and revised income assumptions. A corporate approach is taken to the identification of revenue savings and spending priorities. Significant time is taken to prioritise areas of spending reduction which are robustly tracked through the financial monitoring process and reported to Elected Members on a quarterly basis. The Council sets its budget having consulted on its spending priorities and has demonstrated progress with regard to delivering budget savings in-year, while showing improved and sustained performance in a number of areas of operational performance including, for example, educational achievement.
- *Review of transformation planning.* There is a Corporate Transformation programme in place that was reviewed by internal audit during the year. It was found that a thorough, consistent and transparent approach to the review and scrutiny of the Corporate Transformation Programme by senior managers and elected members was in place. Appropriate and continuous reporting helped facilitate this.
- The Council signed a major 13 year contract to transform its IT services, with new IT partner CGI. The new Enterprise Resource Planning (ERP) system has a planned implementation date of 1 April 2017 and the Council has seconded a senior member of staff on a full time basis to ensure delivery. The CGI agreement was procured under a framework negotiated by the City of Edinburgh Council saving Scottish Borders Council significant time and cost.
- The Council is also considering people planning, business restructuring and energy efficiency as possible areas for savings in future years.
- Budgets include efficiency savings across services. They are monitored on quarterly basis and progress is reported to members through the Executive Committee.
- The Council has in place a robust approach to treasury management and uses its treasury strategy to ensure appropriate management of the Council's cash flow and that the necessary finance is in place to fund the capital programme. In 2015-16 the Council took the tactical decision to utilise available cash in order to defer borrowing.

Wider scope
Value for money and best value

> Value for money is concerned with using resources effectively and continually improving services.

Bodies are responsible for making arrangements to secure Best Value through the continuous improvement in the performance of their functions. In securing Best Value, Local Authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or ‘value for money’) and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development.

We consider value for money and Best Value throughout our testing. Some of the areas where we had a specific focus on value for money and Best Value are:

- *Reviewing how the Council has streamlined its services.* Workforce planning was considered as part of the returns made to Audit Scotland. This is outlined further on page 31.
- The Council has restructured some functions into subsidiary LLPs and charitable companies for financial efficiency. SB Cares became operational during 2015-16 and a new integrated culture and sports trust, Live Borders, has been set up to replace BSLT going forward.
- *Considering the Council’s process for continuous improvement.* The Council has implemented The Street Light Energy Efficiency Programme (SLEEP) which aims to convert 13,000 street lights or 64% Street Lighting luminaires to energy efficient LED technology continues to make good progress. The original five year programme has been accelerated and will be completed a year ahead of schedule by the end of 2018-19.

- *Considering the Council’s processes for ensuring Best Value.* Internal audit considers best value as part of the audit planning process to ensure that this is considered during all internal audit reviews.

Conclusion: We consider that the Council has appropriate arrangements in place for securing Best Value.

Following the Public Pound

Auditors are required to consider the Council’s arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound (“the FtPP Code”).

We considered management’s processes to comply with the FtPP Code. Internal audit considers funding provided to external organisations on an annual basis. In 2015-16, internal audit completed a review of grants and following the public pound and considered that the level of assurance they were able to give in respect of the internal control and governance in this area was substantial. Largely satisfactory risk, control, and governance systems were found to be in place.

Management have confirmed that the Audit Scotland report *Arms Length External Organisations: Are you getting it right?* report was considered as part of the work on the establishment of new ALEOs. An internal audit review in 2014-15 gave a substantial level of assurance over contract monitoring arrangements with the sports trusts that were classified as ALEOs in 2014-15 and 2015-16. In addition, the Limited Liability Partnership Strategic Governance Group (LLPSGG) has been established and its remit includes scrutiny of SB Cares, the Council’s recently established ALEO.

Conclusion: We consider that the Council has appropriate arrangements for monitoring of ALEOs and following the public pound.

> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In considering governance and transparency we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within the Council.* The Council demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting reviewed. Decisions are transparent as actions are documented within Council and committee minutes. There is a high level of transparency through the Council's website, which includes minutes and papers for all committee meetings. Committees are balanced between administration and opposition members to ensure adequate expertise, independence and challenge.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting is of high quality, accurate and transparent. Financial reporting is presented to the Executive Committee on a quarterly basis, including analysis of both revenue and capital. Reports are sufficiently detailed, giving narrative explanations to key movements from budget. Details of any changes to capital programmes is also given to allow these to be approved. Reports are available to the public online.
- *Reading the annual governance statement;* as discussed on page 18.
- *Consideration of scrutiny over key risks.* The Council's approach to managing risk has been refined in 2015. The revised Corporate Risk Management Policy Statement and Strategy were approved by the Council in February 2015 and February 2016 respectively, adding value by aligning risk management to the business planning and performance management processes.
- Risk registers are developed at corporate, strategic and operational levels, and programme and project levels, to record risks with specific actions to be taken by the risk owners to mitigate risks. The Audit and Risk Committee oversee the adequacy and effectiveness of the Council's risk management arrangements.

We are required to provide specific conclusions on the following areas which relate to governance and transparency and support our overall conclusion on this audit dimension.

Corporate governance

We updated our understanding of the governance framework and documented this through our overall assessment of the Council's risk and control environment. This included testing entity wide controls, including risk management, operational and compliance controls, as reported in the interim management report.

Conclusion: Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for the Council.

Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. We updated the review we undertook in 2014-15, which included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*.

We reviewed internal audit reports and conclusions, and through discussion obtained the views of internal audit of risks of fraud within the Council.

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

Performance information

Authorities must prepare and publish performance information in accordance with Accounts Commission directions.

In June 2015 Audit Scotland presented a report to the Accounts Commission summarising a review of all Scottish councils' response to the Commission's Statutory Performance Information Direction (2012). The Council scored favourably on the report, with full compliance in 12 of 18 themes. Areas for improvement were identified as assets and employees, as the range of indicators in these areas could be expanded.

The Scottish Borders Council Public Performance reports are published on the Council website on a quarterly basis. Management monitors information against a range of indicators on a monthly and quarterly basis as appropriate. In 2013, the Council published its Corporate Plan, with eight priorities to work towards over a five year period. Performance indicators are aligned against each of the eight corporate objectives and developed using quarterly public performance reports, Single Outcome Agreement outcomes and SPI categories. Each objective, outcome and category is linked to at least one indicator. This feeds into the quarterly performance reporting of key priorities and ensures each SPI is linked to an overarching aim. There is appropriate alignment of performance measures to key priorities and outcomes.

Included within the internal audit plan each year is a review of the systems for preparation and reporting of performance indicators, including the verification of the SPI return. Internal audit considers best value as part of the audit planning process to ensure that this is considered during all internal audit reviews. Our consideration of the work of internal audit, as part of our extended control work, did not indicate high risk findings within these areas.

Conclusion: We consider that the Council has appropriate arrangements for collecting, recording, and publishing performance information in accordance with Accounts Commission directions.

Exit packages

On reviewing exit packages as part of our work on the remuneration report we found that the value of packages had been recorded correctly within the financial statements and all packages had been approved appropriately in line with the Council's scheme of delegation.

We noted one exit package, which was a compromise agreement reached with a former employee, where there were limited records to support the value of the agreed and approved package. Compromise agreements are a specific type of exit package, the use of which are commonplace in the UK, which have a particular legal form requiring a high degree of confidentiality. The existing policies and procedures of the council do not currently provide guidance around the steps to be followed or data to be retained when it is considered that a compromise agreement is required in order to achieve an optimum outcome for all involved.

While we found the specific payment in question was approved in line with delegated authority within the Council there was no central file of data collected to support the package nor the rationale for the payment. In such circumstances it is difficult to assess the extent to which the Council has achieved value for money in the payment of the exit package.

Conclusion: There is a need to establish a process which will meet the requirements of ensuring value for money and transparency, while complying with the legal requirements surrounding compromise agreements. Guidance covering how this could be achieved across the public sector in Scotland would assist the Council in enhancing existing policies and procedures.

Recommendation two

Wider scope
Local follow up work

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

We performed follow up work on the report, and submitted a return to Audit Scotland summarising our findings and conclusions. This work covered the following key issues:

- Planning: Workforce planning guidance has been produced to ensure that the Council takes a consistent approach to how it staffs its services. There is no organisation wide workforce plan yet in place, however, the Council has agreed a corporate approach to people planning and a number of detailed departmental people plans have already been produced. The workforce planning programme will be fully embedded as part of the corporate transformation programme by 2017. The programme is split into a detailed operational focus for the first three years with savings clearly identified, then an indicative strategic plan for years four and five which we consider to be good practice.
- Service delivery: The workforce planning guidance details short, medium and long term scenario planning and this is reflected in the department people plans. A early retirement voluntary severance ("ERVS") scheme has been running for a number of years. This was regulated by the Council's ERVS policy and other key documents.
- Partnership working: The Council established SB Cares, which went live on 1 April 2015 when all adult care services and around 800 staff transferred to the arms-length organisation. There is also shared working with NHS Borders as a result of the integration of health and social care.
- Challenge and scrutiny: The Workforce Transformation Programme (in place from 2017) was detailed in a corporate transformation report which went to Council on 12 February 2015, and therefore there was the opportunity for members to scrutinise the future plans in relation to workforce transformation, albeit before implementation of the organisational workforce plan. All ERVS supported packages must be scrutinised and approved by the Council.
- Reporting: Costs and net savings from workforce programmes are reported as part of the approved five year Financial Strategy. Costs and savings from ERVS are calculated as and when necessary and reported to the Council, who must approve any supported packages. The Council reports on staff wellbeing indicators on a quarterly basis, including sickness days and training opportunities offered.

Conclusion: The Council has considered workforce planning and invests time into the departmental workforce planning process. Detailed workforce planning guidance for departments has been developed. The organisation-wide Workforce Transformation Programme is not yet in place. Staff numbers and skills needs forecasting could be strengthened, however reporting arrangements on costs and savings are robust.

Appendices

Appendix one
Audit differences

Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. There were two unadjusted audit differences and no adjusted audit differences in relation to fixed assets revaluations.

A small number of minor numerical and presentational adjustments were required to some of the financial statement notes.

	BALANCE SHEET		INCOME AND EXPENDITURE	
NATURE OF ADJUSTMENT	£M DR	£M CR	£M DR	£M CR
Audit difference 1: Adjustment to reflect correct impairment of the Galashiels Transport Interchange.		0.7	0.7	
Audit difference 2: Adjustment to reflect agreed valuation of Eyemouth Golf Course.		0.5	0.5	
The effect of these audit differences on the financial statements is shown to the right. The net effect is on the CIES is £1.2 million.		1.2	1.2	

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To Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Scottish Borders Council ("the Council")

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

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

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

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Council for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the Council for significant professional services provided by us during the reporting period in the attached appendix, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2016 are:

	Current Year	Prior Year
	£000	£000
Audit of Scottish Borders Council	264	274
Audit of Pension Fund	23	23
Audit of subsidiaries	29	9
Total audit	*316*	*306*
Total non-audit services	-	-
Total Fees	**316**	**306**

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix three
WGA returns and grant claims

Return	Description	Conclusion
Whole of Government Accounts	Whole of government accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.	The deadline for submission of the WGA pack to auditors was 26 August 2016. This was received in line with this deadline and it was confirmed that the Council are below the prescribed threshold for full verification. The auditors assurance statement will be submitted before 30 September 2016.
Housing Benefit	The HB subsidy scheme is the means by which local authorities claim subsidy from the DWP towards the cost of paying HB in their local areas. Claimants benefit either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority. Monthly instalments of subsidy are made by the DWP on the basis of authorities' estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor.	We have carried out appropriate sample testing, the results of which are currently under review by the audit team. We will report on our findings ahead of the 30 November 2016 submission deadline.
Education Maintenance Allowance return	Education maintenance allowance ("EMA") is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision. EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.	We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return. Audit Scotland highlighted a potential issue regarding back payments processed in the education management information system used by the Council (SEEMiS), which could have resulted in some students being underpaid by up to one week. Council officers do not consider this affected any applications in 2015-16. From our walkthrough of the Council's EMA processes, we did not identify any instances of under or overpayment. In accordance with instructions from Audit Scotland, no further audit work has been performed.

Appendix three
WGA returns and grant claims (continued)

Return	Description	Conclusion
Bus Service Operators Grant	BSOG is provided and paid directly to bus operators from Transport Scotland. Its aim is principally to benefit passengers, by helping operators to keep their fares down and enabling them to run services that might not otherwise be commercially viable, thus contributing to the maintenance of the overall bus network. Each financial year Scottish Borders Council submits a grant claim to Transport Scotland detailing the number of journeys operating in the year and the miles travelled on these journeys.	■ No issues noted. We intend to submit the audited return by 30 September 2016
Criminal Justice Authority return	The delivery of social work services in the criminal justice system is the responsibility of the eight community justice authorities (CJAs) established under the Management of Offenders etc (Scotland) Act 2005. Funding is provided by Scottish Ministers and allocated to constituent authorities by CJAs. Constituent authorities are required to submit a financial return to their CJA detailing eligible expenditure incurred in the financial year to enable the CJA to produce a composite return to the Scottish Government.	■ No issues noted. We intend to submit the audited return by 30 September 2016.
Non Domestic Rates return	NDRI in Scotland is collected by local authorities on an agency basis and notionally placed in a national 'pool', which is then redistributed among authorities based on each authority's estimated collection levels. In April each year, authorities submit an estimate of their expected NDRI. Following the year end, authorities are required to submit their actual NDRI yield, known as 'the notified amount' in a final return to the Scottish Government.	■ No issues noted. We intend to submit the audited return by 30 September 2016.
Bellwin scheme of emergency financial assistance	The Bellwin scheme provides special financial assistance to authorities who would otherwise incur an undue financial burden as a result of providing relief and carrying out immediate work resulting from large-scale emergencies. In the aftermath of Storm Desmond, Scottish Borders Council notified the Scottish Government of their intention to make a claim for Bellwin funding to support recovery efforts.	■ No issues noted. We intend to submit the audited return by 30 September 2016.

Appendix four
Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit are within a range which we consider to be acceptable.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19.

We set out below the assumptions in respect of defined benefit obligations.

Defined benefit pension liability

2016 £000	2015 £000	KPMG comment
(141,592)	(166,072)	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.

Assumption	Scottish Borders Council	KPMG central	Comment
Discount rate (duration dependent)	3.7%	3.48%	The proposed discount rate is higher than our central rates as at 31 March 2016, and lies at the upper end of the range we would normally consider to be acceptable for IAS19. It is derived using methodology consistent with that used last year and is considered acceptable for the purposes of IAS19.
CPI inflation	RPI less 0.9% (2.4%)	RPI less 1.0%	Acceptable. Our view is that the differential between RPI and CPI should be higher and closer to 1% and expect an assumption of around 1% for this differential. The proposed assumption could therefore be considered overly prudent.
Net discount rate (discount rate – CPI)	1.3%	1.25%	The proposed assumption is less prudent than our central rate. However, the proposed assumption is within an acceptable range of our central rate and therefore acceptable for IAS19 purposes.
Salary growth	CPI + 1.80% (4.2%)	Typically 0% - 1.5% above RPI	Salary growth is now set with reference to CPI compared to RPI last year. The proposed assumption is acceptable under IAS19 provided it is in line with the best estimate view on future remuneration.

The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of around 19 years. The closing deficit decreased by £24.48 million compared to 2014-15, primarily due to an increase in the discount rate of 0.4%.

Appendix five
Action plan

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

We present the identified findings across four audit dimensions – financial sustainability, financial management, governance and transparency and value for money.

Priority rating for recommendations

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

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1. Fixed assets *Audit dimension: financial management*		**Grade three**
Two unadjusted audit differences were identified during our testing on fixed asset revaluations, with a net effect of £1.2 million on the financial statements. One of these related to a manual error when transposing figures and one related to an arithmetical error. There is a risk that errors are not picked up and rectified.	It is recommended that a more detailed review is carried out on information received from the Council's internal valuer, and that a process is implemented to allow for increased communication between the valuer and the corporate finance team.	Agreed. **Responsible officer:** Treasury and Capital Manager **Implementation date:** 31 March 2017

Appendix five
Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2. Exit packages *Audit dimension: governance and transparency*		**Grade three**
On reviewing exit packages as part of our work on the remuneration report we found that the value of packages had been recorded correctly within the financial statements and all packages had been approved appropriately in line with the Council's scheme of delegation. We noted one exit package, which was a compromise agreement reached with a former employee, where there were limited records to support the value of the agreed and approved package. Compromise agreements are a specific type of exit package, the use of which are commonplace in the UK, which have a particular legal form requiring a high degree of confidentiality. The existing policies and procedures of the council do not currently provide guidance around the steps to be followed or data to be retained when it is considered that a compromise agreement is required in order to achieve an optimum outcome for all involved. While we found the specific payment in question was approved in line with delegated authority within the Council there was no central file of data collected to support the package nor the rationale for the payment. In such circumstances it is difficult to assess the extent to which the Council has achieved value for money in the payment of the exit package.	There is a need to establish a process which will meet the requirements of ensuring value for money and transparency, while complying with the legal requirements surrounding compromise agreements. Guidance covering how this could be achieved across the public sector in Scotland would assist the Council in enhancing existing policies and procedures.	Agreed. **Responsible officer:** Chief Officer Human Resources **Implementation date:** 31 March 2017

Appendix six
Prior year recommendations

We follow up prior audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2014-15 audit and 2015-16 interim audit and their current status.

Grade	Number of recommendations raised	Implemented	In progress
One	-	-	-
Two	-	-	-
Three	9	5	4

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We have provided a summary of progress against overdue actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
1. Organisational policies			**Grade three**
The Financial Regulations state that they should be reviewed annually, however they have not been updated since 2012. Items such as payment authorisation thresholds, budgetary controls and delegated authorities should be reviewed periodically to ensure that the Financial Regulations are applicable and fit for purpose.	Management should review and update the Financial Regulations in line with the timeframe established.	Agreed. **Responsible officer**: Chief Financial Officer **Implementation date:** 30 June 2016	Complete.

Appendix six

Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
2. Bank reconciliations			**Grade three**
Bank reconciliations have been prepared for each month and are signed as prepared and reviewed. However, bank balances are not fully reconciled to the ledger each month and there are balancing figures which could not be explained at the time of our interim audit. Staff are aware of the problem and lengthy attempts have been made to resolve the issue, resulting in a reduction but not removal of the amount. These balances will be reconciled or written off at year end (31 March 2016). In addition, the authorisation of bank reconciliations has not been signed and dated in a timely manner. Differences become harder to reconcile as more time passes, and fraud becomes harder to identify, therefore there is a risk that there will be differences which cannot be reconciled.	It is a key anti-fraud control for bank balances to be fully reconciled on a regular basis. Therefore management should ensure that all bank reconciliations are prepared and reviewed in a timely manner.	Agreed. **Responsible officer**: Accounting Manager **Implementation date:** 30 April 2016	Complete.
3. Journal authorisation			**Grade three**
We found that 4 journals from our sample of 25 did not have documentation to support the performance of the authorisation control. Confirmation of authorisation of these journals had not been retained as required and therefore we could not confirm that this had been received before the journal was released. However, as a mitigating measure we were able to verbally confirm this, as well as reviewing supporting documentation to confirm that the journal was not posted in error.	All staff should follow the authorisation control as designed. Management could consider communicating with staff and circulating a reminder of the process.	Agreed. **Responsible officer**: Corporate Finance Officer **Implementation date:** 30 September 2016	Ongoing.

Appendix six
Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
4. FIS new user form			**Grade three**
New users that require access to FIS should have an account requested for them via a new user form, which must be signed off as authorised by a member of SBC staff who appears on the Authorised Signatory List. In one instance of our testing, a new user form had been authorised by a member of staff who did not appear on the IT approved signatories list for user requests. After enquiry, it was determined that an original incident report was logged by an authorised signatory and from this a new user form was filled out and signed off by an unauthorised signatory. There is a risk that members of staff are able to obtain unnecessary or inappropriate access.	Management should ensure that no user is added to the system prior to receiving an authorised signature on the new user form.	Agreed. **Responsible officer:** Acting Chief Officer - IT **Implementation date:** 31 March 2016	Top up testing was performed at yearend. No change user form was available however evidence was available of an authorised person requesting the user access by email. We therefore consider this recommendation to be in progress.
5. Password policy			**Grade three**
The password policy states that all organisational passwords should be a minimum of nine characters, however this is not followed by the FIS system. In addition, we made a similar recommendation in the prior year that the policy should be updated to state the systems that this does not apply to. It was confirmed by review of the intranet that this policy has not been updated.	The password policy should be updated to explicitly state that these minimum password requirements do not apply to the systems that cannot support the required level of complexity.	Agreed. **Responsible officer:** Acting Chief Officer IT **Implementation date:** 30 September 2016	Complete.

Appendix six
Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
6. Transport infrastructure assets			**Grade three**
It is expected that the 2016-17 Code will adopt requirements of the Code of practice on transport infrastructure assets (“the transport code”), which requires measurement of these assets on a depreciated replacement cost basis. Local authorities are advised to develop a project plan to during 2014-15 to help achieve successful implementation. This information is already captured in the whole of government accounts (“WGA”) submission. However this was not prepared in time for the initial submission. There is a risk that management will not have the depreciated replacement cost figures for transport infrastructure assets as at 1 April 2015 to allow for a restatement of the 2015-16 balance sheet in line with the requirements of the Code	In respect of readiness for the 2016-17 code, whilst the Council is in line with other local authorities in its preparedness, a formal project plan has not been formed and the WGA submission for 2014-15 is yet to be provided. The transport infrastructure asset valuation has been completed for WGA, however staff acknowledge this does not yet represent a complete listing. Management should continue to work on completing the transport infrastructure assets tab of the WGA prior to final submission. Going forward, this should be included in the first submission.	Agreed. **Responsible officer:** Corporate Finance Manager **Implementation date:** 31 December 2015	In respect of readiness for the 2016-17 Code, we consider the Council to be in line with other local authorities in having completed the transport infrastructure asset valuations for WGA submission. This is considered ongoing, as the 2016-17 code has not yet been implemented.
7. Fixed asset reconciliation			**Grade three**
The client has not prepared a reconciliation between the fixed asset register and general ledger at year end. There is a risk that these do not agree and then differences are presented on the balance sheet. Our testing did not identify any differences, however in future, if there were differences there is a risk that they would not be addressed in a timely manner. It is noted however that the Council implemented a new fixed asset register during the year and that a reconciliation to the general ledger was carried out before and after data migration which was reviewed.	Management should ensure a reconciliation is prepared in advance of the year end audit to confirm that the financial ledger has captured fixed assets correctly.	Agreed. **Responsible officer:** Accounting Manager **Implementation date:** 30 June 2016	The 2015-16 yearend fixed asset reconciliation was not prepared until August 2016, there is room for improving the timeliness of this control.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
8. National fraud initiative *Risk dimension: Business*			**Grade three**
We completed a return to Audit Scotland in June 2015 to review the Council's participation in NFI. This resulted in a red grading, defined by Audit Scotland as "unsatisfactory where improvement is required as a priority". The Council has only commenced in August 2015 the follow up on matches identified, however a draft plan is being developed and implemented in phases to complete this work. The timeline shows that management anticipate sample checking matches, reviewing and updating the system to meet the timetable set out in NFI guidance for 2014-15	The Council should follow up on matches identified in a timely manner. In respect of the most recent exercise, it is recommended that the Council ensures the plan for completion is followed. It should be noted that not all matches require to be followed up, however the Council should be focusing on high quality matches.	Agreed. **Responsible officer:** Corporate Fraud and Compliance Officer **Implementation date:** In progress, though to be completed by 31 March 2016	Complete.
9. Financial capacity in public bodies *Risk dimension: Business*			**Grade three**
We completed a return to Audit Scotland in respect of our findings on financial capacity within the Council. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management. However, financial responsibility is concentrated and it is likely that with the establishment of the integration health and social care joint board, responsibilities for the finance team will increase and capacity may be further stretched.	It is recommended that management consider its responsibilities in terms of the integration joint board and ensure these are allocated to appropriate individuals. Preparation of the annual accounts of the integration joint board should be included within the year end timetable for 2015-16 onwards. Annual accounts will be required for the period from the date of establishment of the Integration Joint Board, on the basis that there will be relevant transactions, such as Integration Joint Board operating costs.	Agreed. **Responsible officer:** Chief Finance Officer **Implementation date:** 31 December 2015	Complete, see discussion of financial management at page 25.

Appendix seven
Appointed auditor's responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions, Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.	Page 29 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements	Page 13 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports.	Page 19 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Controller of Audit when circumstances indicate that a statutory report may be required.	Page 13 sets out any notifications we have made to the Controller of Audit.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Pages 23 to 31 set out our conclusion on these arrangements.
WGA returns and grant claims	Examine and report on WGA returns Examine and report on approved grant claims and other returns submitted by local authorities.	Pages 36 and 37 set out our conclusion on these arrangements

Appendix seven
Appointed auditor’s responsibilities (continued)

Area	Appointed auditors responsibilities	How we’ve met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 25 and 26 sets out our conclusion on these arrangements. Page 26 concludes on the Council’s participation in the National Fraud Initiative.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the Council’s financial position is soundly based.	Pages 25 - 27 set out our conclusion on these arrangements.
Financial position	Review performance against targets	Pages 6 to 11 summarise our review of how the body has performed against its financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Pages 6 to 11 sets out our conclusion on the Council’s financial position including reserves balances. Page 27 sets out our conclusion on financial sustainability.
Best Value	Be satisfied that proper arrangements have been made for securing Best Value.	Page 28 sets out our conclusion on these arrangements.
Performance information	Review and conclude on the effectiveness and appropriateness of arrangements to prepare and publish performance information in accordance with Accounts Commission directions.	Page 30 sets out our conclusion of the Council’s arrangements for performance information.

Page 54

cutting through complexity

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The contacts at KPMG in connection with this report are:

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SCOTTISH BORDERS COUNCIL ANNUAL ACCOUNTS 2015/16

Report by Chief Financial Officer

AUDIT & RISK COMMITTEE

26 SEPTEMBER 2016

1 PURPOSE AND SUMMARY

1.1 **This report presents Members with copies of the Council's audited Annual Accounts for 2015/16.**

1.2 The Council's External Auditors, KPMG, have now completed the audit of the Council's 2015/16 Annual Accounts. KPMG have prepared the Annual Audit Report as attached on this Agenda and have provided an unqualified independent audit opinion.

1.3 The Annual Audit Report summarises KPMG's conclusions, including:

- An unqualified audit opinion
- Statements supported by high quality working papers;
- KPMG concur with management's accounting treatment and judgements;
- KPMG concluded positively in respect of financial sustainability, financial management, governance and transparency and value for money.

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

1.5 As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, Scottish Borders Council's Pension Fund, SBC Common Good Funds, the SBC Charitable Trusts, Bridge Homes LLP, SB Support and SB Cares as contained in Appendices 1-6 are presented to the Audit & Risk Committee prior to signature.

2 RECOMMENDATIONS

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

(a) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2016 (Appendix 1);

(b) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2016 (Appendix 2);

(c) the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2016 (Appendix 3);

(d) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2016 (Appendix 4(i));

(e) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2016 (Appendix 4(ii));

(f) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2016 (Appendix 4(iii));

(g) the Thomas Howden Wildlife Trust (Charity SC015647) audited Annual Accounts for the year to 31 March 2016 (Appendix 4(iv));

(h) the Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2016 (Appendix 4(v));

(i) the Scottish Borders Council Charity Funds' (Charity SC043896) audited Annual Accounts for the year to 31 March 2016 (Appendix 4(vi));

(j) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2016 (Appendix 5);

(k) the SB Supports audited Annual Accounts for the year to 31 March 2016 (Appendix 6 (i)); and

(l) the SB Cares audited Annual Accounts for the year to the 31 March 2016 (Appendix 6 (ii)).

3 BACKGROUND

3.1 The various sets of unaudited accounts for 2015/16 were submitted to KPMG, the External Auditors, before the statutory deadline of 30 June 2016, following presentation of the draft accounts to the Audit & Risk Committee at the June meeting. KPMG began their detailed audit work in July and this was completed by the beginning of September.

3.2 As part of the statutory requirements the Council is required to advise the public of their right to inspect and object to the various sets of accounts and their supporting papers and make the documents available for inspection. This process was undertaken following the timetable contained in the 2014 Regulations and the inspection period commenced on 1 July 2016. No objections to the Annual Accounts were received during the Public Inspection period.

3.3 The Council must meet the Local Authority Accounts (Scotland) Regulations 2014 (the 2014 Regulations) requirement to have the audited Annual Accounts approved by the local authority or the Committee with responsibility for audit or governance prior to signature on the 30 September 2016. As a result this report is being presented to the Audit & Risk Committee and will subsequently be presented to full Council on the 29th September 2016.

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

> *Immediately **<u>following the approval of the Annual Accounts</u>** for signature, the statements which form part of those accounts are to be signed and dated as follows—*
> *(a) the management commentary by the Section 95 Officer, the Chief Executive and the Leader of the Council;*
> *(b) the statement of responsibilities by the Leader of the Council and the Section 95 Officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;*
> *(c) the annual governance statement by the Chief Executive and the Leader of the Council;*
> *(d) the remuneration report by the Chief Executive and the Leader of the Council; and*
> *(e) the balance sheets by the Section 95 Officer, to authorise publication of the financial statements.*

3.5 These requirements apply to the Annual Accounts of the Local Authority and not to the charity or limited liability partnership accounts, although these have similar signatory requirements. The Section 95 Officer for Scottish Borders Council is the Chief Financial Officer.

3.6 This report presents audited copies of:

- **Scottish Borders Council** Annual Accounts for year ending 31 March 2016 (Appendix 1)

- **Scottish Borders Council's Pension Fund** Annual Accounts for year ending 31 March 2016 (Appendix 2)

- **Scottish Borders Council Common Good Funds** (Charity SC031538) Annual Accounts for the year to 31 March 2016 (Appendix 3)

- **SBC Welfare Trus**t (Charity SC044765) Annual Accounts for the year to 31 March 2016 (Appendix 4(i))

- **SBC Education Trust** (Charity SC044762) Annual Accounts for the year to 31 March 2016 (Appendix 4 (ii))

- **SBC Community Enhancement Trust** (Charity SC044764) Annual Accounts for the year to 31 March 2016 (Appendix 4 (iii))

- **Thomas Howden Wildlife Trust** (Charity SC015647) Annual Accounts for the year to 31 March 2016 (Appendix 4 (iv))

- **Ormiston Trust for Institute Fund** (Charity SC019162) Annual Accounts for the year to 31 March 2016 (Appendix 4 (v))

- **Scottish Borders Council Charity Funds'** (Charity SC043896) Annual Accounts for the year to 31 March 2016 (Appendix 4 (vi))

- **Bridge Homes LLP** Annual Accounts for the year to 31 March 2016 (Appendix 5);

- **SB Supports** Annual Accounts for the year to 31 March 2016 (Appendix 6 (i))

- **SB Cares** Annual Accounts for the year to the 31 March 2016 (Appendix 6 (ii))

3.7 It is a statutory requirement to publish all of the sets of audited annual accounts, and the 2014 Regulations require this to be done no later than 31st October 2016. In addition those relating to registered charities are required to be submitted to the Office of the Scottish Charity Regulator (OSCR).

4 EXTERNAL AUDITOR'S ANNUAL REPORT 2015/16

4.1 KPMG has now completed their audit, and I am pleased to report that all of the Annual Accounts contained in Appendices 1 – 6 have received an unqualified independent audit opinion.

4.2 KPMG's associated Annual Audit Report is presented on this Agenda. As well as being unqualified, the report expresses the following headlines:

- Statements supported by high quality working papers;
- KPMG concur with management's accounting treatment and judgements;
- KPMG concluded positively in respect of financial sustainability, financial management, governance and transparency and value for money.

4.3 The Annual Audit Report highlighted two specific recommendations together with graded risks. The areas in question are shown in Appendix 5 "Action Plan" of the External Auditor's Annual Audit Report. The areas are both classified as Grade 3 (Minor) and include the revaluation of assets on the Balance Sheet and documentation around managing the workforce. These recommendations have been accepted by management and will be enacted within the agreed timescales.

4.4 KPMG also follow up prior audit recommendations to determine whether these have been addressed by management. The Council has demonstrated a commitment to enacting audit recommendations with 5 of the 9 Grade 3 (Minor) recommendations from the 2014/15 audit and 2015/16 interim audit now implemented and the remaining 4 in progress.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

6.1 CMT has been consulted. In addition, the Chief Legal Officer and the Chief Officer Audit and Risk are being consulted and any comments received on the report will be presented to the Committee.

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: 28 June 2016 Audit & Risk Committee

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

Contact us at: Suzy Douglas, Financial Services Manager, Scottish Borders Council, Council HQ, Newtown St Boswells, Melrose TD1 0SA, 01835 824000 X5881, sdouglas@scotborders.gov.uk

Scottish Borders Council

annual accounts

for the year to 31 March 2016

Scottish Borders Council

Annual Accounts 2015/16

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 another successful 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 full 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 19-23.

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.

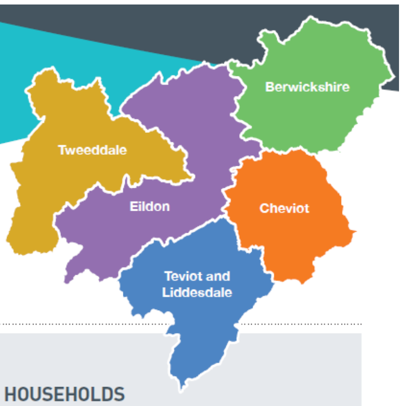
Councillor David Parker

Leader
Scottish Borders Council

Management Commentary

Who are we and what do we do?

SCOTTISH BORDERS
AREA PROFILE 2016



OUR KEY FACTS

POPULATION

114,030 population (2014 est*)

- **13.5%** aged **16 to 29 years** (Scotland = 18.3%)
- **30.2%** aged **60 and over** (Scotland = 24%)

SQ KM

4732 sq km (1827 sq miles)

4th most sparsely-populated **mainland area in Scotland**

HOUSEHOLDS

53,157 households (2014 est*)

- **47.1%** of the **population live in a rural area**
- **30%** live in settlements with **less than 500 people**

*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

34 Councillors

11 Multi-Member Wards

The Council

3 Service Departments:

Chief Executive's
People
Place

Council Administration :

Coalition of Independents, SNP and Liberal Democrats

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:

People Department
providing support to people across the Borders

Health and Social Care Integration Services

- Locality Teams
- Learning Disability Services
- Physical Disability Services
- Joint Integrated Mental Health Service
- Services to Older People
- Strategic Commissioning of External Services

Children and Young People Services

- Schools
- Integrated Early Years Learning & Childcare Services
- Children & Young People's Support:
  Corporate Parenting Function inc. Adoption
  Early Intervention
  Child Protection
- Community Learning and Development

Social Work Services

- SBCares:
  Residential Care
  Care at Home
  Day Care
  Equipment & Community Alarms
- Criminal Justice
- Statutory Duties
  Chief Social Worker
  Mental Health Officer
  Adult Protection

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:

Our Standards

- Put our customers and staff at the heart of what we do
- Be fair, equal and open
- Continually improve our services
- Work with partners and stakeholders
- Deliver value for money in the use of our resources

Our Values

- Public Service
- Respect for All
- Courage
- Integrity
- Honesty
- Commitment

Financial Strategy and Financial Plans

The Financial Strategy supports the delivery of the Council's Priorities and Corporate Plan. The Revenue and Capital Financial Plan provides 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 Revenue and Capital Financial Plan 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, Financial 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 7) 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

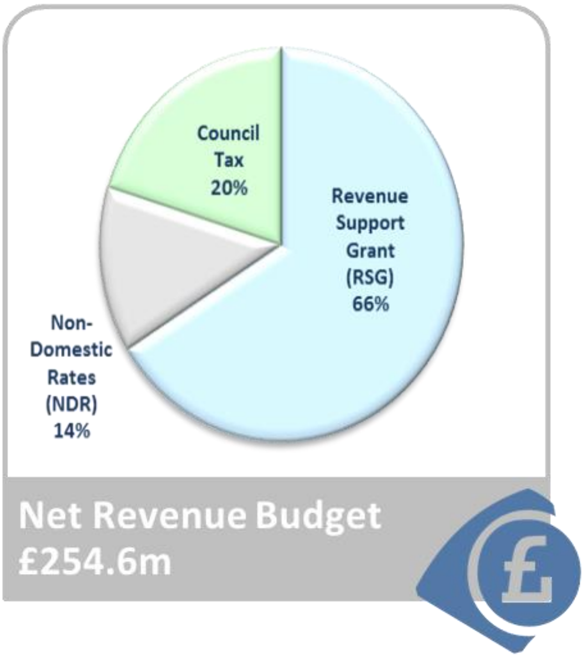
The budget for 2015/16 was approved by the Council on the 12th February 2015 and this included the Financial Strategy. The economic outlook had a direct bearing on public expenditure with the need for tight fiscal constraint to be maintained for the foreseeable future. The Council's aim was to provide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

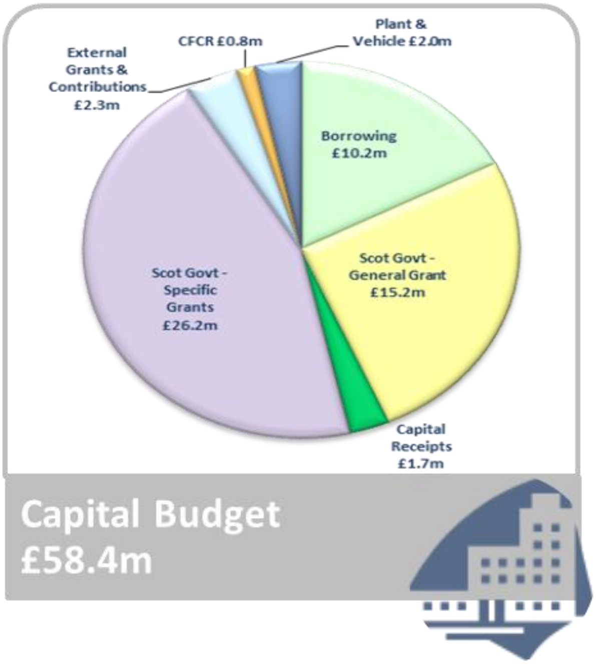
The recommended high level Financial Strategy to be followed over the next five year period was therefore to:

- 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.

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 expenditure, whereas spending on assets (e.g. school buildings) that have a useful value to the Council over multiple years is referred to as Capital expenditure. The financing of Revenue and Capital Expenditure, in general, comes from different sources.





Management Commentary

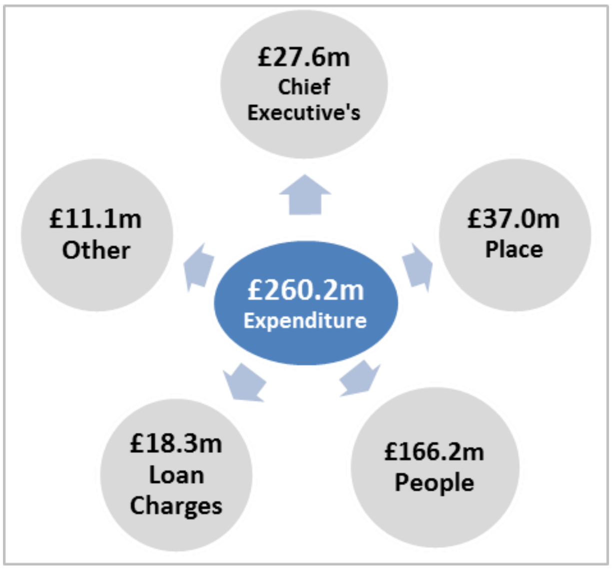
Financial Position at 31 March 2016

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.

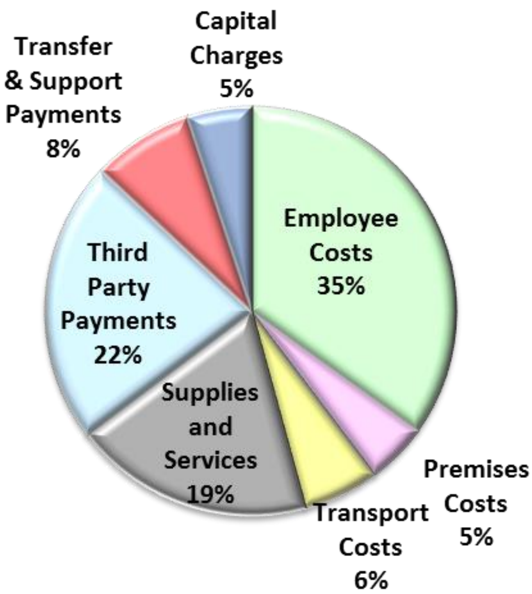
Revenue

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:

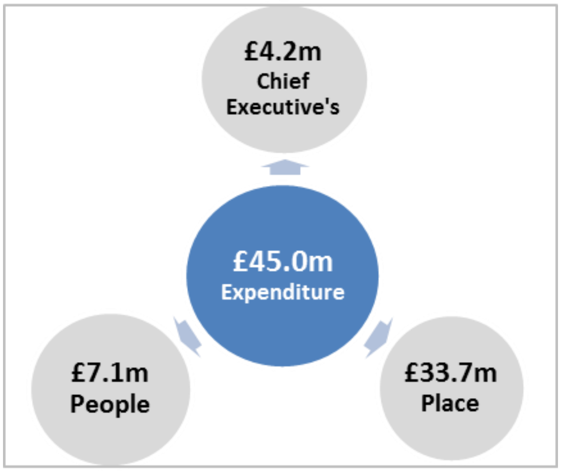


Revenue net expenditure of £260.2m for the year includes income of £136.1m, and gross expenditure of £396.3m as analysed in the chart below:



Capital

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



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

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

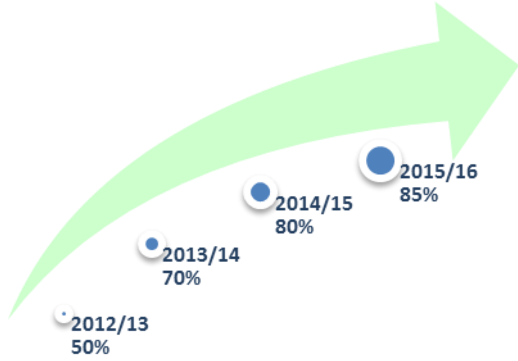
Delivery of Targeted Savings

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 Committee of the Council tracked the delivery of these savings against the Financial Plan proposals. Analysis of delivery of the savings is as follows:

Efficiency Savings Delivered Permanently as Planned
76%

Permanently Achieved by Alternative Measures
9%

Temporarily Achieved by Alternative Measures
15%



% 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

People

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 childcare 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

Base budget for 2016/17 £171.1m

Additional investment made included:

▲ 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

Place

Financial Review of 2015/16

✓ Permanently delivered £1.32m (75%) of required efficiency savings

✓ Final out-turn influenced by reduced food costs, restrictions on discretionary spending and increased income from internal and external sources

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

- 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 *

*Bellwin Scheme is an emergency fund provided by Government

Financial Outlook for 2016/17

Base budget for 2016/17 £40.3m

Additional investment made included:

▲ Reduced SBc Contracts Surplus £0.1m

▲ Increased Roads budget £0.5m

▲ Increased budget for Gala Transport Interchange £0.1m

Potential Risks & Challenges for 2016/17:

➥ 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

Chief Executive's

Financial Review of 2015/16

✓ Permanently delivered £1.2m (84%) of required efficiency savings

✓ £0.287m of railway investment during the year

➤ Pressures in year within the Scottish Wide Area Network (SWAN) project due to increased costs relating to delayed transition of sites have been met from elsewhere within Chief Executive's department

Financial Outlook for 2016/17

Base Budget for 2016/17 £23.0m

Additional investment made included:

- £0.122m of non inflation additional resources were added across the department

- £1.9m identified within existing resources to support the Corporate Transformation Programme

Potential Risks & Challenges for 2016/17:

➥ Supporting Live Borders to deliver significant savings targets

➥ Delivering back office savings at the same time as increased support demand for the corporate transformation agenda

➥ Preparation for the implementation of a new financial IT system

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

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 42 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 61 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 42 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

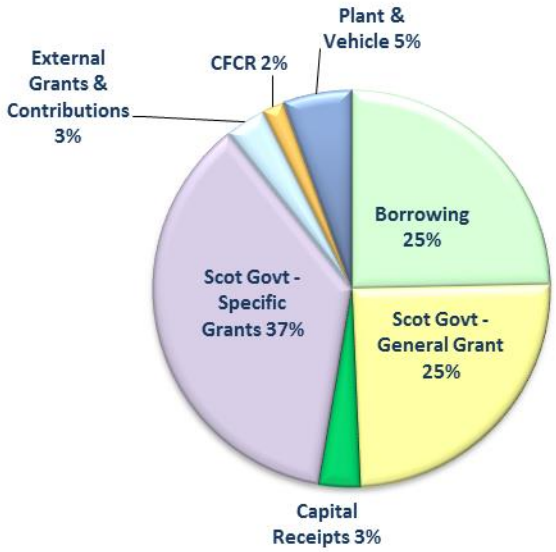
Capital Financing Requirement

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).

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.

Actual Capital Financing 2015/16



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 Treasury 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 12.

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%. This reflects the age and profile of the loans outstanding.

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

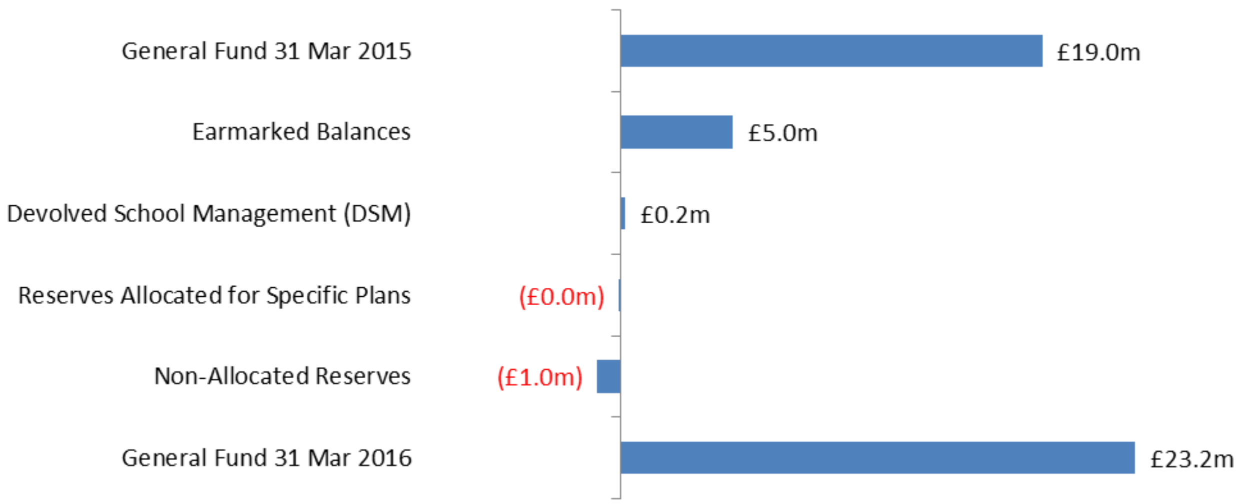
Usable Reserves – result from the Council's activities and can be spent in the future

Note 31, page 90 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 £4.2m 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 99. The Group comprises of the following:

Subsidiaries

SBC Common Good Funds *(Registered Charity)*

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

Bridge Homes LLP

SB Cares and SB Supports LLP

Associates

Border Sport and Leisure Trust (BSLT) *

Jedburgh Leisure Facilities Trust

*BSLT became Live Borders on 1st 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 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 95 - 98, 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.

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.

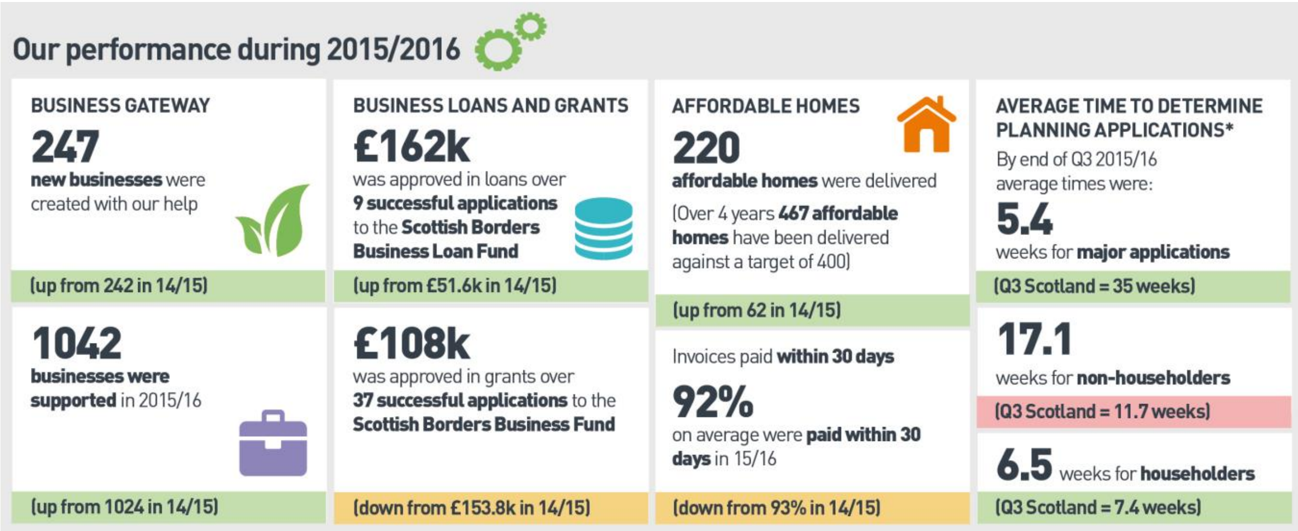
Management Commentary

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 9 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

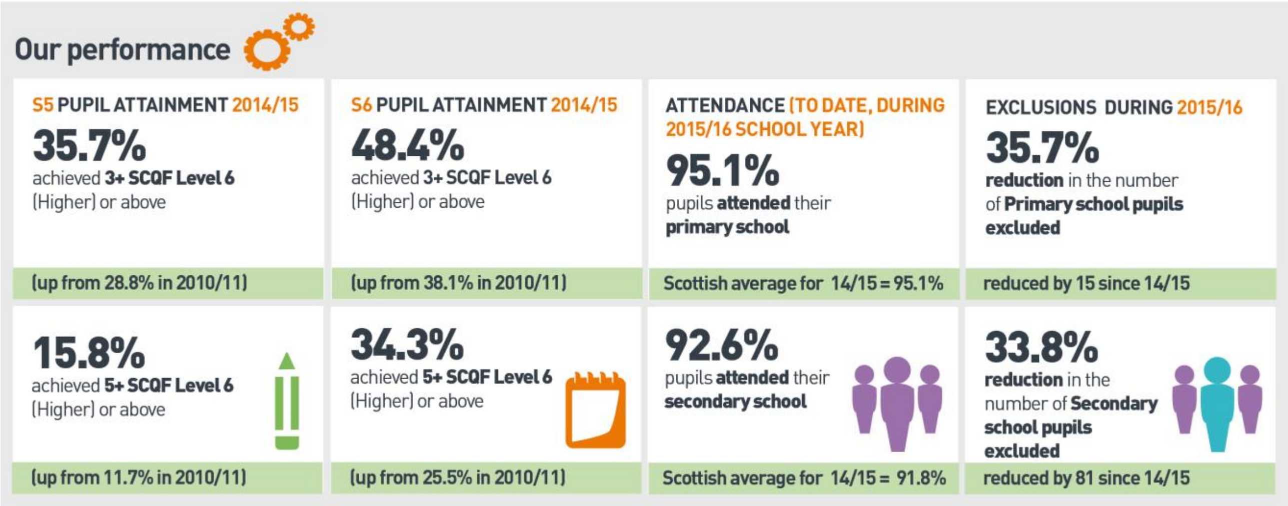


Priorities for the future

- 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

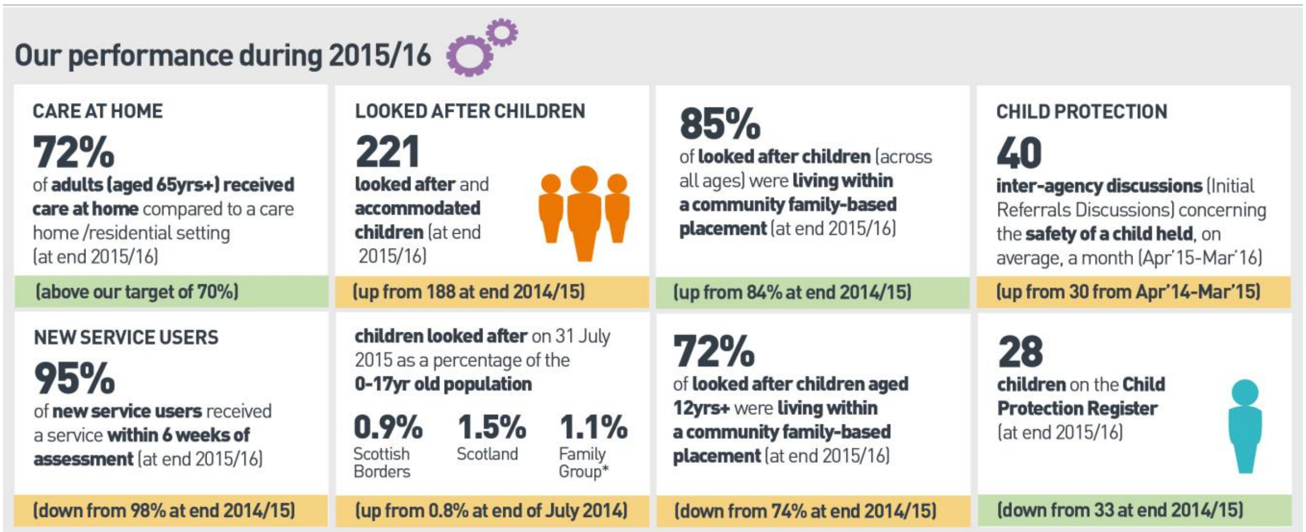
2. Improve attainment and achievement levels for all our children and young people, ensuring an inclusive approach



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

The following funding was awarded

£271k National Lottery	**£14,210** Quality of Life Fund
£20,189 Community Grants Scheme	**£2,014** Neighbourhood Small Schemes Fund

14 projects currently in development

SCOTTISH BORDERS ALERT: **763 residents** have signed up to our **SBAlert service** as of March 2016

RESILIENT COMMUNITIES: **7 active resilient community plans** in place as of March 2016

EILDON

The following funding was awarded

£94k National Lottery	**£19,720** Quality of Life Fund
£41,085 Community Grants Scheme	**£22,683** Neighbourhood Small Schemes Fund

25 projects currently in development

SCOTTISH BORDERS ALERT: **1241 residents** have signed up to our **SBAlert service** as of March 2016

RESILIENT COMMUNITIES: **6 active resilient community plans** in place as of March 2016

CHEVIOT

The following funding was awarded

£146k National Lottery	**£9,253** Quality of Life Fund
£22,669 Community Grants Scheme	**£25,173** Neighbourhood Small Schemes Fund

15 projects currently in development

SCOTTISH BORDERS ALERT: **710 residents** have signed up to our **SBAlert service** as of March 2016

RESILIENT COMMUNITIES: **8 active resilient community plans** in place as of March 2016

April 2015 – March 2016:

BERWICKSHIRE

The following funding was awarded

£639k National Lottery	**£13,050** Quality of Life Fund
£22,481 Community Grants Scheme	**£47,723** Neighbourhood Small Schemes Fund

29 projects currently in development

SCOTTISH BORDERS ALERT: **639 residents** have signed up to our **SBAlert service** as of March 2016

RESILIENT COMMUNITIES: **13 active resilient community plans** in place as of March 2016

TEVIOT & LIDDESDALE

The following funding was awarded

£117k National Lottery	**£16,791** Quality of Life Fund
£25,255 Community Grants Scheme	**£24,994** Neighbourhood Small Schemes Fund

18 projects currently in development

SCOTTISH BORDERS ALERT: **435 residents** have signed up to our **SBAlert 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	ROAD SAFETY	HOUSEHOLD WASTE	HOUSEHOLD WASTE	HOUSEHOLD WASTE
6 people were **killed on our roads** in 2015	**62** people were **seriously injured on our roads** in 2015	**37.51%** of our **household waste**, on average, was **recycled over the last 12 months**	**62.22%** of our **household waste** was **sent to landfill**, on average, over the last 12 months	**0.27%** of our **household waste** required **'other' treatment**, on average, over the last 12 months
		Scotland 42.80%	Scotland 49.30%	Scotland 7.90%
SB last year 7	SB last year 61	SB last year 36.85%	SB last year 62.90%	SB last year 0.25%

Our performance during 2015/2016

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

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)

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)

SBC STAFF BENEFIT SCHEME
33% of **employees** have registered their discount card on the **Employee Benefit Scheme website** since October 2015

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

Our performance during 2015/2016

COUNCIL PROPERTIES

26 **properties** are **no longer required**

7 **properties** are **advertised for sale**

12 **properties** are **currently under offer**

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

COUNCIL TAX

96.5% of **Council Tax due** was collected in 2015/16

(down from 96.65% in 14/15)

CAPITAL PROJECTS

125 **number** of **projects ongoing across the council** of which

108 are **on target**

16 are **slightly behind target**

1 is **not on target**

ENERGY CONSUMPTION* 2015/16

we used **9,439,496** **kilowatt hours** of **electricity** at a cost of **£1.015m**

(down from 10,079,060 in 14/15)

(up from £1.013 in 14/15)

ENERGY CONSUMPTION* 2015/16

we used **12,856,850** **kilowatt hours** of **gas** at a cost of **£0.365m**

(down from 13,223,676 in 14/15)

(down from £0.399m in 14/15)

*The energy consumption figures are based on 26 sites across the council which account for approximately 50% of the energy used across the council, and is therefore representative of the energy use across the council as a whole. The final figures for the whole estate will be not be available until June 2016.

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

Our performance during 2015/2016

CUSTOMER INTERACTIONS

67,949 **face to face interactions** were logged by our **Contact Centres** during 2015/16

(down from 73,304 in 14/15)

102,342 **phone interactions** were logged by our **Contact Centres** in 2015/16

(down from 115,108 in 14/15)

FREEDOM OF INFORMATION

88% of **FOI requests** were **completed on time** in 2015/16

(up from 77% in 14/15)

COMPLAINTS

Our average response times for complaints for 2015/16 were as follows:

Stage 1 complaints **4 days**

(up from 3.9 in 14/15)

Stage 2 complaints **17.2 days**

(down from 17.3 in 14/15)

Escalated complaints **16.7 days**

(down from 17.5 in 14/15)

In 2015/16 we closed:

85.2% of **complaints** at **stage 1** within **5 working days**

(down from 86.9% in 14/15)

77.5% of **complaints** at **stage 2** within **20 working days**

(up from 77.4% in 14/15)

83.3% of **escalated complaints** within **20 working days**

(up from 60.9% in 14/15)

Priorities for the future

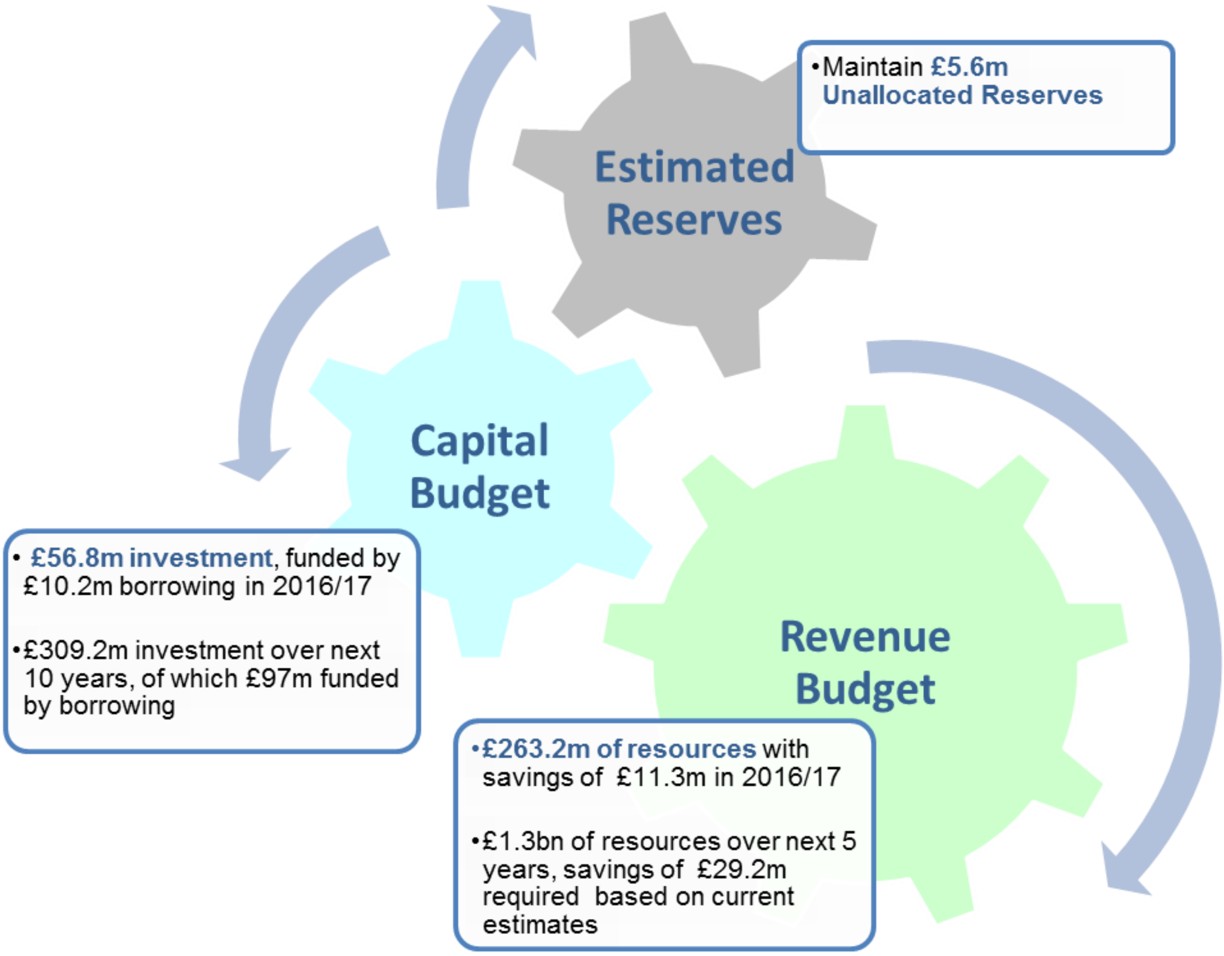
- Continued roll out and development of modern customer services across the Council
- Implement modern ICT systems that support us to deliver services to the customer more efficiently and effectively and help save money
- Expand and update our online services for people who are applying for planning 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

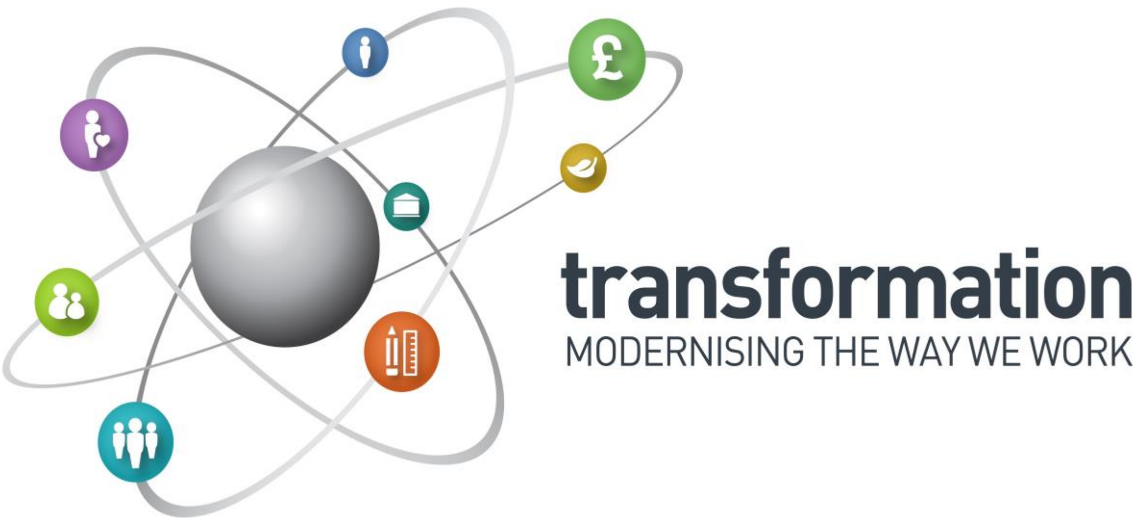


The Revenue and Capital Financial Plans 2016/17 onwards can be found on the Councils webpages at www.scotborders.gov.uk

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
29th September 2016

Tracey Logan
Chief Executive

David Robertson CPFA
Chief Financial Officer

Statement of Responsibilities

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the Council has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Council, that officer is the Chief Financial Officer.

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).

- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Council's Executive Committee at its meeting on 29th September 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
29th September 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.

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.

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 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

29th September 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 Convenor, 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.

Subsidiaries

The Council has a number of subsidiary bodies which are governed via their company documents, service agreements and boards of directors. Since the introduction of the Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2011, on 1 July 2011, there has been no remuneration paid to any subsidiary councillors.

Remuneration Report

Remuneration Policy

Subsidiaries

The Council does not have any influence over the remuneration arrangements for the employees of any of these subsidiary bodies except where employees of the Council are on secondment to a subsidiary body, in these instances these employees are subject to the employee terms and conditions of the Council. The powers to set remuneration for employees of subsidiaries lies solely with the board of each subsidiary.

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 Convenor 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			2015/16				
Total Remuneration £	Name	Post Title	Salaries, fees and allowances £	Taxable Expenses £	Compensation for loss of employment £	Benefits other than in cash £	Total Remuneration £
	Senior Employees in post as at 01/04/15						
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 (FYE 101,508)	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) as Managing Director 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.

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	-	2	**2**	92,169
£60,001 - £80,000	-	-	**-**	-
£80,001 - £100,000	-	-	**-**	-
£100,001 - £150,000	-	-	**-**	-
£150,001 - £200,000	-	-	**-**	-
Total	21	19	**40**	626,136

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	4,391p.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 Infrastructue	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.

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	Post Title	In-year pension contributions: For year to 31 March 2015	In-year pension contributions: For year to 31 March 2016	Accrued pension benefits: Type	Accrued pension benefits: As at 31 March 2016	Accrued pension benefits: 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	8,701p.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	38,451p.a 86,388	2,311p.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 -	1,761p.a. -
B Park (2)	Chief Officer Roads (appointed 5 January 2016)	8,322	3,716		25,633 p.a 53,797	9,621p.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	36,581p.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	27,081p.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) as Managing Director 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
29th September 2016

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
			Other Operating Expenditure				
		288	(Gain)/Loss on Disposal of Assets			652	
			Financing & Investment Income and Expenditure				
		11,806	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
			Taxation and Non-Specific Grant Income				
		(175,625)	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
	Property Plant and Equipment		
290,444	Other Land and Buildings	302,841	12
14,621	Vehicle, Plant, Furniture & Equipment	15,019	
86,483	Infrastructure	89,035	
4,730	Surplus Assets	4,116	
26,976	Assets Under Construction	33,108	
1,014	Heritage Assets	1,014	13
295	Intangible Assets	230	14
5,223	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**	

Balance Sheet

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 and the audited accounts were authorised for issue on 29th September 2016.

David Robertson CPFA
Chief Financial Officer
29th September 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 £'000	2015/16 £'000	Notes
(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	(37,503)		32
19,201	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	28,203		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 Polices

Cash and Cash Equivalents

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

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

Charges to Revenue for Non-Current Assets

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

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

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

Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Post Employment Benefits

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

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

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

The Local Government Pension Scheme

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

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

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

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

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

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

Service cost comprising:

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

Remeasurements comprising:

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

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have 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.

Financial Liabilities:

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

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

Financial Assets:

Financial assets can be classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.

- Available for sale assets – assets that have a quoted market price and/or do not have a fixed or determinable payments.

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

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

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

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

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

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

Fair Value Measurement:

The authority measures some of its non-financial assets such as surplus assets and 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 Polices

Heritage Assets

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

- Museum Collection
  The collection of various artefacts is reported on the Balance Sheet using the best available valuations; the Museum Service is working towards compliance with the Code. Where possible external valuations will be used to supplement the professional valuations carried out by Museums Service Officers. The artefacts are deemed to have indeterminate lives and accordingly depreciation is not charged.

- Fine Arts Collection
  The fine art picture collection is reported on the Balance Sheet on the basis of the professional opinion of value by the officers of the Museum Service using where possible the latest information on comparable pictures from sale rooms. As with the Museum Collection the Service is working towards more external valuation of the collection. The pictures are deemed to have indeterminable lives and accordingly depreciation is not charged.

- Archive Centre Collection
  Due to the unique nature and volume of the papers held in the Archive Centre no valuation of the collection has been undertaken and it is felt that such a task would not represent value for money. The papers are deemed to have indeterminate lives and accordingly depreciation is not charged.

- Monuments, Memorials and Statues Collection
  The Property and Facilities Service look after all of the War Memorials, various monuments and statues and these are valued on the basis of Community Assets so are reported on the Balance Sheet at no value. It is felt that any other basis of valuation would not represent value for money. Depreciation would be inappropriate to charge in conjunction with the valuation basis used.

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

Accounting Polices

Intangible Assets

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

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

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

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

Inventories

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

Investment Property

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

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

Leases

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

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

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

The Council as Lessee

Finance Leases

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

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

- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as the rent becomes payable).

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

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:

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

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

Private Finance Initiative (PFI)

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.

- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Property, Plant and Equipment

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

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

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

Accounting Polices

Measurement: assets are initially measured at cost, comprising:

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- 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 Polices

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

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

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

- Land and Buildings
  - Land is not depreciated
  - Buildings are written off over their estimated life.

- Vehicles, Plant, Furniture and Equipment
  - Historic costs are written off over each asset's estimated life.

- Infrastructure
  - Historic costs are written off over the estimated useful life of the asset.

- Surplus Assets
  - Land is not depreciated
  - Buildings are written off over their estimated life.

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised in the accounts when:

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

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

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

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

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

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

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.

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	6,495	35,590
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)	(31,262)	(91,880)
	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	138,617	98	4,655	-	143,370	5,580	148,950
Premises Costs	18,973	-	(65)	-	18,908	-	18,908
Transport Costs	23,817	-	(107)	-	23,710	-	23,710
Supplies & Services Costs	35,590	(5,227)	(50)	-	30,313	-	30,313
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	(91,880)	32	(24,096)	-	(115,944)	(288,267)	(404,211)
	260,225	(19,429)	32,786	(8,652)	264,930	(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 42.

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	19,379	-	273	-	19,652	-	19,652
Transport Costs	24,429	-	(56)	-	24,373	-	24,373
Supplies & Services Costs	36,941	(5,550)	(936)	-	30,455	-	30,456
Third Party Payments	65,788	(4,795)	-	-	60,993	-	60,993
Transfer Payments	31,366	-	-	-	31,366	-	31,366
Support Services	1,475	-	23,720	-	25,195	-	25,195
Capital Charges	19,359	(10,095)	22,633	(9,140)	22,757	12,093	34,850
Income	(91,181)	20	(23,720)	-	(114,881)	(273,767)	(388,648)
	257,707	(20,255)	24,210	(9,140)	252,520	(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 42.

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

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 we have decided, after seeking an opinion from our external auditors 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. A further £7,000 fee was agreed in respect of services provided by KPMG in relation to the audit of Scottish Borders Council Common Good and Trust Funds Annual Accounts.

Notes to the Core Financial Statements

Note 12 Property, Plant & Equipment

Movement on Balances

Movements in 2015/16

	Property Plant & Equipment						
	Other Land & Buildings £'000	VPFE * £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Heritage Assets	Total Assets £'000
Gross book value (GBV) at 31 March 2015	**317,463**	**55,541**	**162,118**	**26,976**	**4,866**	**1,014**	**567,978**
Acquisitions & Recognition in the year	6,361	6,142	7,973	24,118	18	-	**44,612**
Transfers between categories	16,101	-	1,627	(17,986)	258	-	**-**
Revaluations	6,557	273	89	-	109	-	**7,028**
Impairments	(8,988)	(380)	(587)	-	(407)	-	**(10,362)**
Disposals	(1,535)	(2,653)	(70)	-	(604)	-	**(4,862)**
Gross book value (GBV) at 31 March 2016	**335,959**	**58,923**	**171,150**	**33,108**	**4,240**	**1,014**	**604,394**
Cumulative depreciation at 31 March 2015	**(27,019)**	**(40,920)**	**(75,635)**	**-**	**(136)**	**-**	**(143,710)**
Depreciation for the year	(8,719)	(5,628)	(6,550)	-	(132)	-	**(21,029)**
Transfers between categories	50	-	-	-	(50)	-	**-**
Revaluations	1,185	-	-	-	125	-	**1,310**
Impairments	1,220	-	-	-	-	-	**1,220**
Disposals	165	2,644	70	-	69	-	**2,948**
Cumulative depreciation at 31 March 2016	**(33,118)**	**(43,904)**	**(82,115)**	**-**	**(124)**	**-**	**(159,261)**
Net book value at 31 March 2016	**302,841**	**15,019**	**89,035**	**33,108**	**4,116**	**1,014**	**445,133**
Net book value at 31 March 2015	**290,444**	**14,621**	**86,483**	**26,976**	**4,730**	**1014**	**424,268**

* VPFE – Vehicles, Plant, Furniture and Equipment

The Council had no investment properties in 2015/16.

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)

Notes to the Core Financial Statements

Comparative Movements in 2014/15

	Property Plant & Equipment						
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Heritage Assets	Total Assets £'000
Gross book value (GBV) at 31 March 2014	**309,884**	**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	1437	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	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.

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						
	Other Land & Buildings £'000	VPFE £'000	Infrastructure £'000	Assets under Construction £'000	Surplus Assets £'000	Heritage Assets £'000	Total Assets £'000
Carried at Historical Cost	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
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)
-	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 80) 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	54,952
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**	**245,432**

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
	Net Asset Value	
53,079	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		Land & Buildings 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**

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**

2014/15 £'000		2015/16 £'000
	Explanation of Movements in Year	
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
	Cost of Services	
16,394	Current Service Costs	17,407
1,094	Past Service Costs, including curtailments	985
	Financing and Investment Income and Expenditure	
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)**
	Movement in Reserves Statement	
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**

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	
	By industry type	
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	
	By sector	
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:	
	By company size	
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.

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

Note 26 Contingent Liabilities

- 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 over a period of time; this will allow Bridge Homes LLP to deliver affordable housing in the Scottish Borders in line with the Council's Local Housing Strategy. 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; the loan is secured over the properties as per the Facility Agreement.

- 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)**

Notes to the Core Financial Statements

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.

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) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'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) £'000	Other significant observable inputs (Level 2) - Restated £'000	Significant unobservable inputs (Level 3) £'000	Total - Restated £'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	31 March 2016	31 March 2015	31 March 2016
	£'000	£'000	£'000	£'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 £'000	%		31 March 2016 £'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	(155,164)
(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**

Notes to the Core Financial Statements

	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**

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 £'000	Fair Value Restated £'000	Carrying Amount £'000	Fair Value £'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 £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'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.

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%
1to 2 years	0%	20%
2 to 5 years	0%	20%
5 to 10 years	0%	20%
Over 10 years	20%	100%

Credit Risk

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

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

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

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 31 March 2015 £000	Actual 31 March 2016 £000
Less than one year	-	-	63,650	20	3,243	3,261
Between one and two years	-	-	63,650	20	-	-
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.

Notes to the Core Financial Statements

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

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

	£'000
Increase in interest receivable on variable rate investment	(246)
Decrease in fair value of fixed rate borrowing liabilities (No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure)	38,989

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

(ii) **Price Risk** - The Council, excluding the Pension Fund, does not generally invest in equity shares or marketable bonds.

(iii) **Foreign Exchange Risk -** The Council has no financial assets or liabilities denominated in foreign currencies at the Balance Sheet date. It therefore has no exposure to loss arising from movements in exchange rates.

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 £'000	Transfers between reserves and funds £'000	Gains or Losses for the Year £'000	Balance as at 31 March 2016 £'000
Usable Reserves				
General Fund Balances	(18,991)	615	(4,786)	(23,162)
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)	(70,202)
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 £'000	Analysis as at 31 March	2015/16 £'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 £'000	Reconciliation to General Fund Surplus	2015/16 £'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	(652)
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)		**(37,503)**
	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	(736)
19,201		**28,203**
(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 £'000		2015/16 £'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 £'000	2014/15 £'000		2015/16 £'000	2015/16 £'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	634	
(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 £'000	2014/15 £'000			2015/16 £'000	2015/16 £'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)				(30,853)
	(127)	Net General Fund expenditure on discretionary reliefs			(135)
	(28,722)	**Net Non-Domestic Rate Income**			**(30,988)**
	(353)	Adjustment to Previous Years National Non-Domestic Rates			(170)
	(29,075)	**Contribution to National Pool**			**(31,158)**
	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	1,302
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**	**91,046**

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 47 to 59.

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 47 to 59.

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									
		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'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		Duns £'000	Galashiels £'000	Hawick £'000	Innerleithen £'000	Jedburgh £'000	Kelso £'000	Lauder £'000	Peebles £'000	Selkirk £'000	Total £'000
		2015/16									
	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
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
389	Short Term Investments	17	6	134		57	36	24	70	131	475
	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 99 to 108.

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

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

- Common Good Funds
- Charitable Trust Funds
- Bridge Homes LLP
- 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 95 to 98. 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.

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 we have decided, after seeking an opinion from our external auditors 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 Movement in Reserves Statement

	Scottish Borders Council Usable Reserves	Group Entities Usable Reserves	**Total Group Usable Reserves**	Scottish Borders Council Unusable Reserves	Group Entities Unusable Reserves	**Total Group Unusable Reserves**	**Total Group Reserves**
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Balance at 01/04/2014	(25,720)	(5,676)	**(31,396)**	52,327	(7,993)	**44,334**	**12,938**
Movement in reserves during 2014/15							
(Surplus)/deficit on provision of services	(179)	214	**35**	-	-	**-**	**35**
Other Comprehensive Income & Expenditure	-	(377)	**(377)**	(44,745)	(4,678)	**(49,423)**	**(49,800)**
Total Comprehensive Income & Expenditure	(179)	(163)	**(342)**	(44,745)	(4,678)	**(49,423)**	**(49,765)**
Adjustments between accounting basis & funding basis under regulations							
Charges for depreciation & amortisation of non-current assets	(20,886)	-	**(20,886)**	20,886	-	**20,886**	**-**
Impairment losses (charged to CI&ES)	(3,085)	-	**(3,085)**	3,085	-	**3,085**	**-**
Revaluation Losses	(288)	-	**(288)**	288	-	**288**	**-**
Capital grants and contributions applied	20,768	-	**20,768**	(20,768)	-	**(20,768)**	**-**
Employee - Statutory Adjustments	1,270	-	**1,270**	(1,270)	-	**(1,270)**	**-**
Profit/(Loss) on disposal of assets	(1,035)	-	**(1,035)**	1,035	-	**1,035**	**-**
Revenue 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 Movement in Reserves Statement

	Scottish Borders Council Usable Reserves	Group Entities Usable Reserves	**Total Group Usable Reserves**	Scottish Borders Council Unusable Reserves	Group Entities Unusable Reserves	**Total Group Unusable Reserves**	**Total Group Reserves**
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Balance at 01/04/2015	(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**	-
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**	**338,415**	**(72,939)**	**265,476**
325,400	**(72,523)**	**252,877**	**Net Cost of Services**	**338,415**	**(72,939)**	**265,476**
		(165)	Roads Trading Operation (Surplus)/Deficit (External)			(98)
			Other Operating Expenditure			
		288	(Gain)/Loss on Disposal of Assets			652
			Financing & Investment Income and Expenditure			
		11,806	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			-
			Taxation and Non-Specific Grant Income			
		(175,625)	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
	Property Plant and Equipment	
302,804	Other Land and Buildings	318,192
14,621	Vehicle, Plant, Furniture & Equipment	15,046
86,483	Infrastructure	89,035
4,730	Surplus Assets	4,116
26,976	Assets Under Construction	33,108
1,039	Heritage Assets	1,040
1,290	Investment Property	-
295	Intangible Assets	230
4,403	Long Term Investments	4,372
1,134	Investments in Associates	1,328
4,316	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 29th September 2016.

David Robertson CPFA
Chief Financial Officer
29th September 2016

Group Cash Flow Statement

2014/15 £'000		2015/16 £'000	2015/16 £'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	(39,580)	
19,201	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	28,203	
(15,338)	**Net Cash Flows From Operating Activities**		**(15,692)**
	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	(621)	
3,106	**Net Cash Flows from Financing Activities**		**887**
(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 47 to 59.

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 £'000	Reconciliation to General Fund Surplus	2015/16 £'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	(652)
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)		**(39,580)**
	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	(736)
19,201		**28,203**
(15,338)	**Net Cash Outflow / (Inflow) from Operating Activities**	**(15,692)**

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.

Independent auditor's report to the members of Scottish Borders Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Scottish Borders Council and its group for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash Flow Statements, the council-only Council Tax Income Accounts and the Non-Domestic Rate Income Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

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

Respective responsibilities of the Chief Finance Officer and auditor
As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group for the year then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

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

29th September 2016

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.

Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance, Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

Scottish Borders Council

Scottish Borders Council Common Good Funds

Charity Registration Number: SC031538

annual report and financial statements

for the year to 31 March 2016

Contents

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 distributing 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.

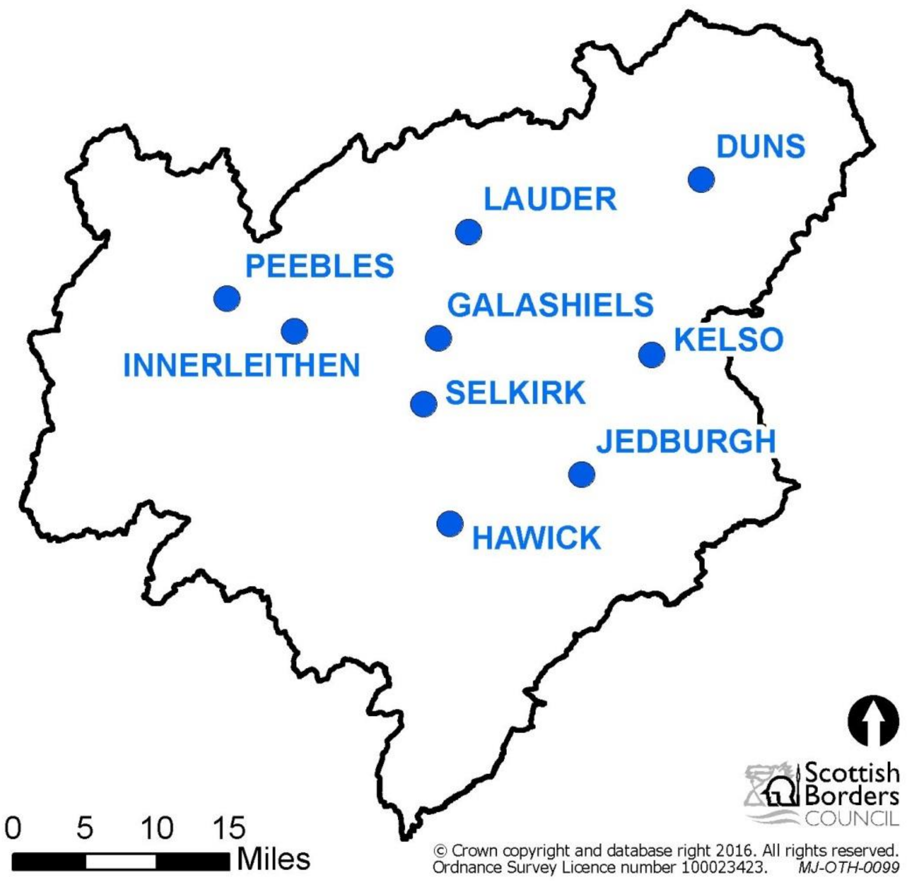
TRUSTEES' ANNUAL REPORT

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:

Duns	Galashiels	Hawick	Innerleithen	Jedburgh
Kelso	Lauder	Peebles	Selkirk	



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 charities, the **funds are operated for the common good of the residents** of the aforesaid former Burghs and may be used to **provide advancement of citizenship or community development**.

- In respect of those funds which have land and property (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 Scotland Act 1994, with the Local Government (Scotland) Act 1973 provisions still in force, and the Local Government in Scotland Act 2003. Cognisance is also to be taken of the various judicial opinions in case law governing the treatment of Common Goods.

b) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

Financial Regulations

Code of Corporate Governance

Procedural Standing Orders

Scheme of Administration

Scheme of Delegation

c) When considering any action in connection with the Common Good Funds the Trustees have regard to the interests of the inhabitants of the area to which the Common Good formerly related.

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

Recruitment and Appointment of Trustees

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

Financial Review

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

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

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

- all approved applications for grants
- all financial obligations in respect of properties owned by the charity, where relevant, and
- all support and governance costs are covered.

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

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

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

Reference and Administrative Information

Charity Name Scottish Borders Council Common Good Funds

Charity registration number SC031538

Business Address Council HQ
Newtown St Boswells
Melrose
Scottish Borders

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 which is recognised within Other: governance costs.. 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
29 June 2016

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland.*

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2016

2014/15 £'000		2015/16 £'000	Notes
	Income from:		
58	Donations and legacies	105	*1*
60	Investments	54	*2*
225	Charitable activities	237	
324	Other: donations	570	5
667	**Total Income**	**966**	
	Expenditure on:		
(460)	Raising funds	(396)	*3*
(85)	Charitable activities	(89)	*3*
(48)	Other: governance costs	(48)	*3&4*
(593)	**Total Expenditure**	**(533)**	
74	**Net Income**	**433**	
	Other Recognised Gains / (Losses)		
3,497	Gains on revaluation of fixed assets	103	5
79	(Losses) / gains on investment assets - unrealised	(33)	7
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	
		Long Term Assets			
10,622		Tangible assets	11,022		*5*
2,350		Investments	2,361		*6*
77		Long term loan to third party	60		
	13,049	**Total Long Term Assets**		**13,443**	
		Current Assets			
20		Debtors	21		
389		Short term investment in SBC loans fund	476		
	409	**Total Current Assets**		**497**	
		Current Liabilities			
	(66)	Creditors: Amounts falling due within 1 year		(45)	
	343	**Net Current Assets**		**452**	
	13,392	**Total Net Assets**		**13,895**	
		The Funds of the Charity			
	(2,962)	Restricted income funds		(3,353)	*7*
	(10,430)	Revaluation reserve		(10,542)	
	(13,392)	**Total Charity Funds**		**(13,895)**	

All of the charity's activities are continuing.

The Accounting Policies on pages 12 and 13 and the Notes on pages 14 to 16 form part of these Financial Statements.

The unaudited accounts were issued on 30 June 2016.

David Robertson CPFA
Chief Financial Officer
29 June 2016

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

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

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

Funds Structure

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

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

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Accruals of Income and Expenditure

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

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

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

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

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds. Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Tangible Fixed Assets and Depreciation

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

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

Investments

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

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

Cash and Short Term Investments

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

NOTES TO THE FINANCIAL STATEMENTS

1 Donations and Legacies

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 Income from Investments

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

3 Analysis of Charitable Expenditure

2014/15 Total £'000		Activities Undertaken Directly £'000	Support and 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

Governance costs are comprised of a recharge from SBC and reflect the cost of the proportionate administration, finance, and legal time spent on Common Good funds.

5 Long Term Assets

The change in the value of Long term assets has been driven by the following movements:

As at 31 March 2015		as at 31 March 2016			
Total £'000		Donated Property £'000	Revaluation £'000	Depreciation £'000	**Total** £'000
3	Duns	0	0	0	3
313	Galashiels	245	103	(36)	625
3,678	Hawick	0	0	(40)	3,638
0	Innerleithen	325	0	(17)	307
488	Jedburgh	0	0	(12)	476
883	Kelso	0	0	(43)	840
1,028	Lauder	0	0	(11)	1,017
916	Peebles	0	0	(37)	879
3,313	Selkirk	0	0	(76)	3,237
10,622		**570**	**103**	**(272)**	**11,022**

The Donated 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, as follows:

	From SBC Capital £'000	From SBC Revaluation £'000	**Total** **£'000**
Galashiels – Old Gala House	154	92	245
Innerleithen – Memorial Hall	134	189	324
	288	**281**	**570**

Each element of the total has been allocated to the Galashiels and Innerleithen capital and revaluation reserves accordingly.

Long term assets are broken down between Land & buildings and Heritage assets as follows:

As at 31 March 2015 Total £'000		as at 31 March 2016 Land & Buildings at Net Book Value £'000	Heritage Assets £'000	Total £'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	0	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**

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 Restricted Income Funds

Balance at 31 March 2015 £'000		Unrealised movement on investment assets	Other income – donations	SOFA Surplus	Balance at 31 March 2016 £'000
22	Duns	0		(2)	20
31	Galashiels	0	154	2	186
614	Hawick	(6)		27	635
0	Innerleithen	0	134	0	135
1,039	Jedburgh	(14)		22	1,047
298	Kelso	(4)		(3)	291
243	Lauder	(2)		50	291
493	Peebles	(6)		10	497
222	Selkirk	(2)		31	251
2,962		**(33)**	**288**	**137**	**3,353**

Note: The total donated property of £288k above represents the capital transfer of Old Gala House and Innerleithen Memorial Hall per note 5.

8 Contingent Assets

The charity granted a secured grant to Jedburgh Golf Club in 2004 to purchase land. The grant is to be written down over 20 years. If during this period the land is sold the balance of the remaining funds are to be returned to the charity.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission for Scotland

To Follow

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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Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance, Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

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Scottish Borders Council
SBC Welfare Trust

Charity Registration Number: SC044765

annual report and financial statements

for the year to 31 March 2016

Contents

FOREWORD

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

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Welfare Trust, the "Trust", which was established for the purpose of:

a) The prevention or relief of poverty;
b) The relief of those in need by reason of age, ill–health, disability, financial hardship or other disadvantage; or
c) The advancement of health, including the advancement of education in health.

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

During 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.

Charitable Purpose

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

Summary of the Main Activities

- The Charity has taken steps to ensure that the assets of the funds are properly managed and accounted for. 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 was has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.

b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:

Financial Regulations	Code of Corporate Governance	Procedural Standing Orders	Scheme of Administration	Scheme of Delegation

c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.

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

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

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

- Restricted Income Funds - £109,124

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

Reference and Administrative Information

Charity Name SBC 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
29 June 2016

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland.*

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2016

2014/15 RESTATED £		2015/16 £	Notes
	Income From:		
2,561	Investments	2,677	*1*
102,360	Other	0	
104,921	**Total Income**	**2,677**	
	Expenditure on:		
0	Charitable activities	176	*2*
0	**Total Expenditure**	**176**	
104,921	**Net Income / (Expenditure)**	**2,853**	
	Other Recognised Gains and Losses		
3,028	(Loss) / gain on investment assets	(1,678)	
107,949	**Net Movement in Funds**	**1,175**	
	Reconciliation of Funds		
0	Total funds brought forward	107,949	
107,949	**Total Funds Carried Forward**	**109,124**	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015 RESTATED			as at 31 March 2016		Notes
£	£		£	£	
		Fixed Assets			
100,539		Investments	98,898		*4*
	100,539			**98,898**	
		Current Assets			
7,741		Short term investment in SBC loans fund		10,226	5
		Current Liabilities			
(331)		Creditors: Amounts falling due within 1 year		**0**	
	7,410	**Net Current Assets**		**10,226**	
	107,949	**Total Net Assets**		**109,124**	
		The Funds of the Charity			
(107,949)		Restricted income funds	(109,124)		*6*
	(107,949)	**Total Charity Funds**		**(109,124)**	

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 30 June 2016.

David Robertson CPFA
Chief Financial Officer
29 June 2016

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 emended).

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

Accruals of Income and Expenditure

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

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

Funds Structure

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

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

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds.

Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

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

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

Cash and Short Term Investments

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

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2014/15 £		2015/16 £
121	Bank Interest Receivable	95
2,440	Income from Investment Portfolio	2,581
2,561		**2,677**

2 Charitable Activities

There were no charitable activities during 2015/16. The debit balance of £176 represents an accrued balance from 2014/15 that was not paid out as the beneficiary that no longer exits.

3 Governance Costs

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

4 Investments

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

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

5 Short Term Investments in SBC Loans Fund

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

6 Restricted Funds

The funds held with the Charity are restricted by area, purpose or both. The restrictions for each are shown in the table below. Expenditure in the year relates to net loss on Newton investments made in the year. It is included here to reconcile the restricted balances. 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 Restated £	Restricted by Area £	Restricted by Purpose	Income £	Loss on investment assets £	2015/16 Balance £
59,449	Mid & East Berwickshire	a&b	1,533	833	60,151
4,154	Galashiels & District	a&b	98	64	4,188
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
107,949			**2,853**	**1,678**	**109,124**

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 - £109,124

8 2014/15 Restated Accounts

The 2014/15 comparative Statement of Financial Activities and Balance Sheet shown on pages 8 and 9 have been restated to include 10% allocation of the W R Watson Bequest, one of the registered charities restructured under the Scottish Borders Council Welfare Trust. This is in line with the original charity reallocations carried out in 2014/15. As such, an amount of £3,489 impacts on the 'Other Incoming Resources' in the Statement of Financial Position and also the Investments in the Balance Sheet.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission for Scotland

To Follow

ADDITIONAL INFORMATION

Contact Details

For further information on the SBC Welfare Trust, please contact:

Lynn Mirley	Telephone: 01835 – 825016
Corporate Finance Manager	E-mail: lmirley@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

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Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

Scottish Borders Council
SBC Education Trust
Charity Registration Number: SC044762

annual report and financial statements

for the year to 31 March 2016

Contents

FOREWARD

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

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Education Trust, the "Trust", in 2014/15. Investigative work 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 its charitable purpose.

Charitable Purpose

- To advance and/or promote cultural exchange by, among other things, the payment of grants and/or loans, the award of bursaries, the award of prizes, payment towards cultural exchanges that further an educational purpose both within Scottish Borders area and further afield (including abroad), to such educational 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 was has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.

b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:

Financial Regulations	Code of Corporate Governance	Procedural Standing Orders	Scheme of Administration	Scheme of Delegation

c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.

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

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

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

- Restricted Income Funds - £1,737

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

Reference and Administrative Information

Charity Name SBC 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
29 June 2016

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland.*

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2016

2014/15 £		2015/16 £	*Notes*
	Income from:		
119	Investments	119	
1,619	Other	0	
1,738	**Total Income**	**119**	
	Expenditure on:		
(110)	Charitable activities	(42)	*1*
(110)	**Total Expenditure**	**(42)**	
1,628	**Net Income / (Expenditure)**	**77**	
	Other Recognised Gains and Losses		
56	(Loss) / gains 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
£	£		£	£	
		Fixed Assets			
1,616		Investments	1,592		*3*
	1,616			**1,592**	
		Current Assets			
	68	Short term investment in SBC loans fund.		145	*4*
	1,684	**Net Current Assets**			
	1,684	**Total Net Assets**		**1,737**	
		The Funds of the Charity			
(1,684)		Restricted income funds	(1,737)		
	(1,684)	**Total Charity Funds**		**(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 30 June 2016.

David Robertson CPFA
Chief Financial Officer
29 June 2016

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

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

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

Funds Structure

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

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

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Accruals of Income and Expenditure

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

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

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

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

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds. Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

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

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

Cash and Short Term Investments

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

NOTES TO THE FINANCIAL STATEMENTS

1 Charitable Activities

The charity has made provided a grant 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.

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

4 Short Term Investments in SBC Loans Fund

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

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission for Scotland

To Follow

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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Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance, Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

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Scottish Borders Council

Scottish Borders Council
SBC Community Enhancement Trust
Charity Registration Number: SC044764

annual report and financial statements

for the year to 31 March 2016

Contents

FOREWORD

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

Working with OSCR, Scottish Borders Council completed the first step of the re-organisation of a number of trusts. This resulted in the establishment of the SBC Community Enhancement Trust, the "Trust", which was established from 10 funds held by Scottish Borders Council. The purpose of the trust is as follows:

a) The advancement of community development;
b) The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets;
c) The provision of recreational facilities, or the organisation of recreational activities are primarily intended; or
d) The advancement of environmental protection or improvement.

During 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.

Charitable Purpose

- The advancement of Community Development;
- The advancement of the arts, heritage, culture or science, including the upkeep of heritage assets;
- The provision of recreational facilities, or the organisation of recreational activities are primarily intended; or
- The advancement of environmental protection or improvment.

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 was has been established and approved by OSCR detailing the purpose and structure of the newly established Charity.

b) In terms of the Trustee's governance of the fund, these have been approved by Scottish Borders Council at its meeting on 21st May 2015 and have been reflected in its governance codes. The codes covering the governance of the Charity comprise of the following:

Financial Regulations	Code of Corporate Governance	Procedural Standing Orders	Scheme of Administration	Scheme of Delegation

c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.

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

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

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

- Restricted Income Funds - £71,991.

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

Reference and Administrative Information

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

Trustees

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

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

Chief Executive	The Chief Executive of Scottish Borders Council is Tracey Logan.
Auditor	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
29 June 2016

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland.*

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2016

2014/15 RESTATED £		2015/16 £	*Notes*
	Income from:		
2,063	Investments	2,419	*1*
68,976	Other	0	
71,039	**Total Income**	**2,419**	
	Expenditure on:		
(3,500)	Charitable activities	0	*2*
(3,500)	**Total Resources Expended**	**0**	
67,539	**Net Income / (Expenditure)**	**2,419**	
	Other Recognised Gains and Losses		
3,130	(Loss) / gain on investment assets	(1,097)	
70,669	**Net Movement in Funds**	**1,322**	
	Reconciliation of Funds		
0	Total funds brought forward	70,669	
70,669	**Total Funds Carried Forward**	**71,991**	

BALANCE SHEET as at 31 March 2016

as at 31 March 2015 RESTATED			as at 31 March 2016		Notes
£	£		£	£	
		Fixed Assets			
74,921		Investments	73,824		*4*
	74,921			**73,824**	
		Current Assets			
		Short term investment in SBC loans fund.		0	
		Current Liabilities			
(4,252)		Creditors: Amounts falling due within 1 year		(1,833)	
	(4,252)	**Net Current Assets**		**(1,833)**	
	70,669	**Total Net Assets**		**71,991**	
		The Funds of the Charity			
(70,669)		Restricted income funds	(71,991)		*5*
	(70,669)	**Total Charity Funds**		**(71,991)**	

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 30 June 2016.

David Robertson CPFA
Chief Financial Officer
29 June 2016

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 emended).

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

Accruals of Income and Expenditure

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

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

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

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

Funds Structure

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

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

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds.

Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

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

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

Cash and Short Term Investments

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

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

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.

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

5 Restricted Funds

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

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

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

2014/15 Balance £	Restricted by Area £	Restricted by Purpose	Income £	Loss on investment assets £	2015/16 Balance £
1,470	Borders Wide	a	45	21	1,494
12,870	Berwickshire	Unrestricted	270	181	12,959
27,586	Berwickshire	b	716	485	27,817
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
70,669			**2,419**	**1,097**	**71,991**

6 2014/15 Restated Accounts

The 2014/15 comparative Statement of Financial Activities and Balance Sheet shown on pages 8 and 9 have been restated to exclude 10% allocation of the W R Watson Bequest, one of the registered charities restructured under the Scottish Borders Council Welfare Trust. This is in line with the original charity reallocations carried out in 2014/15. As such, an amount of £3,489 impacts on the 'Other Incoming Resources' in the Statement of Financial Position and also the Investments in the Balance Sheet.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission for Scotland

To Follow

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

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Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance, Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

Scottish Borders Council

Scottish Borders Council
Thomas Howden Wildlife Award Fund

Charity Registration Number: SC015647

annual report and financial statements

for the year to 31 March 2016

Contents

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.

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 during local government reorganisation in 1996. The trust purpose was set out in a deed of trust by Williemeana Mary Andrew Howden in favour of the former education authority, The Borders Regional Council, dated 31 May 1988 although the principal deed is not held by the Council.

b) The overarching governance of the Charity is the principle of statute and common law governing trusts and bequests. The statutory framework are through the Local Government Scotland Act 1994, with the Local Government (Scotland) Act 1973 provisions still in force, and the Local Government in Scotland Act 2003.

c) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

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

d) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.

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

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2016, the reserves of the Thomas Howden Wildlife Award amounted to:

- Restricted Income Funds - £4,221.

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

Reference and Administrative Information

Charity Name	Thomas Howden Wildlife Award Fund
Charity registration number	SC015647
Business Address	Council HQ Newtown St Boswells Melrose Scottish Borders

Trustees

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

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

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

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the 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
29 June 2016

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland.*

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

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

STATEMENT OF FINANCIAL ACTIVITIES for year ended 31 March 2016

2014/15 £		2015/16 £	*Notes*
	Income from:		
211	Investments	206	*1*
211	**Total Income**	**206**	
	Expenditure on:		
0	Charitable activities	0	*2*
0	**Total Expenditure**	**0**	
211	**Net Income / (Expenditure)**	**206**	
	Other recognised gains and losses		
127	(Loss) / gain 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
£	£		£	£	
		Fixed Assets			
3,695		Investments	3,641		*4*
	3,695			**3,641**	
		Current Assets			
	374	Short term investment in SBC loans fund.		580	5
	374	**Net Current Assets**		**580**	
	4,069	**Total Net Assets**		**4,221**	
		The Funds of the Charity			
(4,069)		Restricted income funds	(4,221)		
	(4,069)	**Total Charity Funds**		**(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 30 June 2016.

David Robertson CPFA
Chief Financial Officer
29 June 2016

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 emended).

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

Accruals of Income and Expenditure

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

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

Funds Structure

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

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

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

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

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

Cash and Short Term Investments

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

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

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.

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

5 Short Term Investments in SBC Loans Fund

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

6 Reserves Policy

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

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

At 31 March 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 the Accounts Commission for Scotland

To Follow

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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Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance, Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

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Scottish Borders Council
Ormiston Trust for Institute
Charity Registration Number: SC019162

annual report and financial statements

for the year to 31 March 2016

Contents

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 during 2015/16 have been fully utilized during the year. The funds are expended on behalf of the Charity by Scottish Borders Council who manages facility on behalf of the Trustees.

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 during local government reorganisation in 1996. A Trust Disposition and settlement by the late Charles Walker Ormiston was requested with the books of Council and Session 13 February 1882. The present Council are the statutory successors to that body.

a) The funds are governed by Trustee's in line with the Local Code of Corporate Governance of Scottish Borders Council, consideration being given to:

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

c) When considering any action in connection with the Charity the Trustees must act in the interest of the Charity Funds.

b) The financial statements comply with the Financial Reporting Standard for Smaller Entities (FRSSE), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

At 31 March 2016, the reserves of the Ormiston Trust for Institute amounted to:

- Restricted Income Funds - £245,582

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.

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.

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
29 June 2016

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland.*

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of expenditure over income for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2016

2014/15 £		2015/16 £	Notes
	Income From:		
102	Investments	120	*1*
102	**Total Income**	**120**	
	Expenditure on		
(25,500)	Raising funds	(25,500)	*3*
(102)	Charitable activities	(120)	*2*
(25,602)	**Total Expenditure**	**(25,620)**	
(25,500)	**Net Income / (Expenditure)**	**(25,500)**	
	Other Recognised Gains and (Losses)		
102,835	Gains on revaluation of fixed assets	0	
136	Gains/(Loss) / gain 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	241,367		*4*
3,969		Investments	3,911		*5*
	270,836			**245,278**	
		Current Assets			
304		Short term investment in SBC loans fund.	305		
	304	**Total Current Assets**		**305**	
	271,140	**Total Net Assets**		**245,582**	
		The Funds of the Charity			
	(271,140)	Restricted income funds		(245,582)	
	(271,140)	**Total Charity 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 30 June 2016.

David Robertson CPFA
Chief Financial Officer
29 June 2016

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

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

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

Funds Structure

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

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

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Accruals of Income and Expenditure

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

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

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

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

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds. Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Tangible Fixed Assets and Depreciation

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

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

Investments

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

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

Cash and Short Term Investments

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

NOTES TO THE FINANCIAL STATEMENTS

1 Investment Income

2014/15 £000		2015/16 £'000
1	Bank Interest Receivable	1
101	Income from Investment Portfolio	119
102		**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 at1 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 Governance Costs

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

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission for Scotland

To Follow

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

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Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance, Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

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Scottish Borders Council

Scottish Borders Council
SBC Charitable Trusts

Charity Registration Number: SC043896

annual report and financial statements

for the year to 31 March 2016

Contents

FOREWORD

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

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

Work 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 charitable funds. Their charitable status was regulated at the end of 2012/13 by OSCR.

Charitable Purpose

- The charitable purpose of this charity is to hold funds for each trust, Endowment or bequest comprising the Charity. Each of these funds have their own purpose related to the general purpose of the prevention or relief of poverty by reason of age, ill-health, disability, financial hardshi 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-organse 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 been reflected in its governance codes. The Local Code of Corporate Governance of Scottish Borders Council covers the governance of the Charity and is comprised of the following:

Financial Regulations	Code of Corporate Governance	Procedural Standing Orders	Scheme of Administration	Scheme of Delegation

c) When considering any action in connection with the Charity the Trustees have to act in the interest of the Charity Funds.

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

Recruitment and Appointment of Trustees

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

Financial Review

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

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

Reserves

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

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

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

Restricted Income Funds - £593,942

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

Reference and Administrative Information

Charity Name SBC Charitable Trusts

Charity registration number SC043896

Business Address Council HQ
Newtown St Boswells
Melrose
Scottish Borders

Trustees

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

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

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

Professional support

The Council provides the Administrative, Legal and Financial support and advice to the 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
29 June 2016

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

Under charity law, the trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations. The trustees have elected to prepare the financial statements in accordance with FRSSE *The Financial Reporting Standard for Smaller Entities applicable in the UK and Republic of Ireland.*

The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the trustees:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;**
- **State where applicable, whether the financial statements comply with the trust deeds and rules, subject to any material departures disclosed and explained in the financial statements and**
- **Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.**

The trustees are required to act in accordance with the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the trustees to ensure that, where any statements of accounts are prepared by them under the Charities and Trustee Investment (Scotland) Act 2005, those statements of accounts comply with the requirements of regulations under that Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

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

STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2016

2014/15 £		2015/16 £	Notes
	Income from:		
209	Donations and legacies	178	*1*
30,329	Investments	28,620	*2*
30,538	**Total Income**	**28,799**	
	Expenditure on:		
(15,738)	Charitable activities	(18,628)	*3*
(15,738)	**Total Expenditure**	**(18,628)**	
14,800	**Net Income / (Expenditure)**	**10,171**	
	Other Recognised Gains and Losses		
19,546	(Loss) / gain 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
£	£		£	£	
		Fixed Assets			
565,449		Investments	559,237		5
	565,449			**559,237**	
		Current Assets			
26,584		Short term Investment in SBC loans fund	34,705		6
	26,584	**Total Current Assets**		**34,705**	
	592,033	**Total Net Assets**		**593,942**	
		The Funds of the Charity			
(592,033)		Restricted income funds	(593,942)		7
	(592,033)	**Total Charity Funds**		**(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 30 June 2016.

David Robertson CPFA
Chief Financial Officer
29 June 2016

ACCOUNTING POLICIES

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

Basis of Preparation and Assessment of Going Concern

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

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

Funds Structure

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

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

Income Recognition

Under FRSSE, income is recognised when it is receipt is “probable”, rather than “virtually certain”, which was the case under the previous Charities SORP 2005.

Full recognition criteria are:

- Entitlement – control over the rights or other access to the economic benefit has passed to the charity
- Probable – it is more likely than not that the economic benefits will flow to the charity
- Measurement – the monetary value or amount of the income and the costs to complete the transactions can be measured reliably

Accruals of Income and Expenditure

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

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

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

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

Donations & Legacies

All donations and gifts are included within incoming resources under Restricted Funds. Donations and Gifts in Kind are brought into the financial statements at their market value to the charity.

Resources Expended

Resources expended are analysed between charitable activities, costs of generating funds and governance costs. Charitable activities include all direct costs and other support costs.

Investments

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

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

Cash and Short Term Investments

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

NOTES TO THE FINANCIAL STATEMENTS

1 Donations and Legacies

Restricted

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

2 Investment Income

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.

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

6 Short Term Investments in SBC Loans Fund

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

7 Restricted Funds

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	1,957	53,257
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 Herbetson 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**	**8,027**	**300,509**

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 Endowmwnt	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	8,961	9,883	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	2,047	2,490	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		**28,799**	**26,890**	**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.

INDEPENDENT AUDITOR'S REPORT

to the trustees of Scottish Borders Council Common Good Funds and the Accounts Commission for Scotland

To Follow

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

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Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance, Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

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annual report and financial statements

Bridge Homes LLP

For the year to 31 March 2016

Scottish Borders COUNCIL

Contents

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 at mid-market rent, in accordance with the National Housing Trust local authority variant model.

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
29th September 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

	2014/2015	2015/2016		Notes
	£	£	£	
Fixed Assets				
Property, Plant and Equipment	1,289,780	2,667,388		*6*
	1,289,780		**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
29th September 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	0	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

We have audited the financial statements of Bridge Homes LLP for the year ended 31 March 2016 set out on pages 6 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including the Financial Reporting Standard for Smaller Entities.

This report is made solely to the members of the limited liability partnership (LLP), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 5, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the LLP as at 31 March 2016 and of its loss for the 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.

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;
- we have not received all the information and explanations we require for our audit; or
- the members were not entitled to prepare financial statements in accordance with the small limited liability partnerships' regime.

Hugh Harvie (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

29 September 2016

CONTACT INFORMATION

For further information on Bridge Homes LLP, please contact

Lynn Mirley	Telephone: 01835 – 825016
Corporate Finance Manager	E-mail: lmirley@scotborders.gov.uk
Scottish Borders Council	Council Headquarters Newtown St Boswells MELROSE TD6 0SA

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Scottish Borders Supports LLP

Members' report and financial statements

Registered number SO305176

For the period ended 31 March 2016

(Incorporated on 18th December 2014)

Contents

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 liabilities were (£53k) and total net liabilities 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 1 September 2016.

Approved by the members and signed on 1 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 Scottish Borders Supports LLP for the period ended 31 March 2016 set out on pages 10 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*. This report is made solely to the members of the limited liability partnership (LLP), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page *7* the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2016 and of its loss for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Independent auditor's report to the members of Scottish Borders Supports LLP (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Hugh Harvie
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court

20 Castle Terrace

Edinburgh

EH12EG

Profit and Loss Account

For the period ended 31 March 2016

	Note	**period ended 31 March 2016 £000**
Turnover	*2*	*17,521*
Cost of sales		(17,037)
Gross profit		*484*
Administrative expenses		(516)
Operating loss		(32)
Interest receivable and similar income	*5*	7
Loss on ordinary activities before and after taxation being profit for the financial period before members' remuneration and profit shares		**(25)**
Loss for the financial period available for discretionary division among members		**(25)**

All of the LLP's operations are classed as continuing.

Other Comprehensive Income

For the period ended 31 March 2016	**£000**
Loss for the year available for discretionary division among members	(25)
Other comprehensive income for the period, net of income tax	-
Total comprehensive income for the period	**(25)**

The accompanying notes form integral part of these financial statements.

Balance Sheet

at 31 March 2016

	Note	**Period ended 31 March 2016 £000**
Fixed assets	*7*	27
Current assets		
Stock	*8*	31
Debtors	*9*	782
Cash at bank and in hand		1,408
		2,221
Creditors: amounts falling due within one year	*10*	(2,273)
Net current liabilities		(52)
Total assets less current liabilities		**(25)**
Net liabilities		(25)
Members' other interests		
Members' capital		-
Other reserves		(25)
Total other reserves		(25)

The accompanying notes form integral part of these financial statements.

These financial statements were approved by the members on 1 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**

Statement of Change in Net Assets Attributable to Partners

For the period ended 31 March 2016

	Members' Capital	Other Reserves	Total other Reserves	Total Members' Interest
	£000	£000	£000	£000
Balance at 18 December 2014	-	-	-	-
Movement in the period	-	(25)	(25)	(25)
Balance at 31 March 2016	**-**	**(25)**	**(25)**	**(25)**

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.

The financial statements have been prepared under FRS101 *Reduced Disclosure Framework*.

The LLP's financial statements are fully consolidated in the group financial statements prepared and published by Scottish Borders Council. This entitles the LLP to use the exemption from the preparation of a cash flow statement as stated in International Accounting Standard 1 'cash flow statements'**("IAS1").**

As the LLP is a wholly owned subsidiary of Scottish Borders Council, the LLP has taken advantage of the exemption contained in International Accounting Standard 24 'related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group as related parties.

Going concern

The LLP’s business activities, together with the factors likely to affect its future development, performance and position, are set out in the members’ report on page **3**. The members have a reasonable expectation that despite there being a negative net worth at the end of 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.

Notes (continued)

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 in the financial year following their acquisition.

Depreciation is charged on a straight line basis and the useful life of an asset is deemed to be:

I.T. Systems	3 years
Plant and Equipment	5 years

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)

3 Staff numbers and costs

The average Full Time Equivalent number of persons employed by the LLP during the period, analysed by category, was as follows:

	Number of employees (FTE)
	2016
Administration	10

Staff costs for the above persons were:

	2016
	£000
Wages and salaries	331
Social security costs	30
Pension costs	44
	405

4 Expenses and auditors' remuneration

Included in loss are the following

	2016
	£000
Audit of these financial statements	15

5 Other interest receivable and similar income

	2016
	£000
Other interest receivable	7
	7

Notes (continued)

6 Particulars of members

The number of members of the Limited Liability Partnership for the period was two. No remuneration was paid to either member.

7 Fixed assets

	IT Systems	Plant & Equipment		Total
	£000	£000	£000	£000
Cost				
At 18 December 2014	-	-	-	-
Additions	15	12	-	27
At 31 March 2016	**15**	**12**	**-**	**27**
Depreciation				
At 18 December 2014	-	-	-	-
Charge for the year	-	-	-	-
At 31 March 2016	**-**	**-**	**-**	**-**
Net book value				
At 18 December 2014	-	-	-	-
At 31 March 2016	15	12	-	27

8 Stock

	2016
	£000
Raw materials and consumables	31

9 Debtors

	2016
	£000
Trade debtors	39
Amounts owed by group undertakings	576
Prepayments and accrued income	167
	782

Notes (continued)

10 Creditors: amounts falling due within one year

	2016 £000
Trade creditors	38
Amounts owed to group undertakings	415
Other creditors	542
Value added tax	839
Accruals and deferred income	440
	2,273

11 Post Balance Sheet Events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements.

12 Ultimate parent organisation

The LLP's ultimate parent undertaking is Scottish Borders Council, one of its designated members, as this is the largest group into which the results of the LLP are consolidated. The consolidated group financial statements of Scottish Borders Council may be obtained from its registered office at the Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

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Scottish Borders Cares LLP

Members' report and financial statements

Registered number SO305156

For the period ended 31 March 2016

(Incorporated on 15th December 2014)

Contents

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 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:

- reduce the running cost of its services by £480k
- increase its Home Care service by 1200 hours per week
- launch its online ability equipment service
- invest 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 1 September 2016.

Approved by the members and signed on 1 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 period ended 31 March 2016 set out on pages 11 to 22.The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*. This report is made solely to the members of the limited liability partnership (LLP), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 8 the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 March 2016 and of its loss for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Independent auditor's report to the members of Scottish Borders Cares LLP
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Hugh Harvie
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court

20 Castle Terrace

Edinburgh

EH12EG

Profit and Loss Account

For the period ended 31 March 2016

	Note	**Period ended 31 March 2016 £000**
Turnover	*2*	14,547
Cost of sales		(14,812)
Gross profit		(265)
Administrative expenses		(32)
Loss on ordinary activities before and after taxation being profit for the financial period before members' remuneration and profit shares		**(297)**
Loss for the financial period available for discretionary division among members		**(297)**

All of the LLP's operations are classed as continuing.

Other Comprehensive Income

For the period ended 31 March 2016	*Note*	**£000**
Loss for the period available for discretionary division among members		(297)
Actuarial Gain	*7*	203
Expenses recognised in the profit and loss account	*7*	(1,200)
Total comprehensive loss for the period		**(1,294)**

The accompanying notes form integral part of the financial statements.

Balance Sheet

at 31 March 2016

	Note	**Period ended 31 March 2016 £000**
Current assets		
Debtors	*5*	372
Cash at bank and in hand		3
		375
Creditors: amounts falling due within one year	*6*	(672)
Net current liabilities		(297)
Total assets less current liabilities		**(297)**
Provisions for liabilities – Pension and similar obligations	*7*	(997)
Net liabilities		(1,294)
Members' other interests		
Members' capital		-
Pension reserve		(997)
Other reserves		(297)
Total other reserves		(1,294)

The accompanying notes form integral part of the financial statements.

These financial statements were approved by the members on 1 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**

Statement of Changes in Net Assets Attributable to Partners

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 15 December 2015	-	-	-	-	-
Movement in the period	-	(997)	(297)	(1,294)	(1,294)
Balance at 31 March 2016	**-**	**(997)**	**(297)**	**(1,294)**	**(1,294)**

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.

The financial statements have been prepared under FRS101.

The LLP's financial statements are fully consolidated in the group financial statements prepared and published by Scottish Borders Council. This entitles the LLP to use the exemption from the preparation of a cash flow statement as stated in I**nternational 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 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	479

Staff costs for the above persons were:

	2016
	£000
Wages and salaries	11,705
Social security costs	652
Pension costs	1,629
	13,986

There was a voluntary severance process in place that was directed by Scottish Borders Council. One staff member left during the period at a cost of £33,162, the cost was fully covered by Scottish Borders Council.

4 Particulars of members

The number of members of the Limited Liability Partnership for the period was two. No remuneration was paid to either member.

5 Debtors

	2016
	£000
Trade debtors	3
Amounts owed by group undertakings	337
Prepayments and accrued income	6
Other debtors	26
	372

Notes (continued)

6 Creditors: amounts falling due within one year

	2016
	£000
Other taxation and social security	347
Accruals and deferred income	325
	672

7 Employee benefits

The information disclosed below is in respect of the LLP's share of assets and liabilities within the Scottish Borders Council Pension Fund, in which it is a participating employer. The latest full actuarial valuation was carried out as at 31 March 2014.

The Scottish Borders Council Pension Fund is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

Governance
The administering authority for the Fund is Scottish Borders Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, Scottish Borders Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.

Risk exposure
In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

-Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;

-Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;

-Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and

-Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

Notes (continued)

7 Employee benefits (continued)

In addition, as many unrelated employers participate in the Scottish Borders Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Amendments, curtailments and settlements

Past service costs/gains
Past service costs/gains arise as a result of introduction or withdrawal of, or changes to, member benefits. For example, an award of additional discretionary benefits to a member such as added years by a member would be considered a past service cost.

We are not aware of any additional benefits which were granted over the year ending 31 March 2016.

Curtailments
We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand that one former employee became entitled to unreduced early retirement benefits.

The capitalised cost of the additional benefits on FRS102 compliant assumptions is calculated at £58,000. This figure has been included within service cost in the statement of profit or loss.

Settlements
We are not aware of any liabilities being settled at a cost materially different to the accounting reserve during the year.

The assets and defined benefit obligations prior to the 1st April 2015 will be accounted and disclosed for within Scottish Borders Council for service prior to the transfer date.

In accordance with the agreement between Scottish Borders Council and SB Cares LLP, no liability was transferred from the Council to SB Cares LLP at the date of incorporation.

Notes (continued)

7 Employee benefits (continued)

	2016
	£000
Present value of funded defined benefit obligations	(3,184)
Fair value of plan assets	2,187
	997
Net liability	(997)

Movements in present value of defined benefit obligation

	2016
	£000
At 15th December 2014	-
Current service cost	2,830
Past service costs/(gains)	58
Interest cost	9
Actuarial losses/(gains)	(229)
Contributions by members	503
Estimated benefits paid	13
At 31 March 2016	3,184

Movements in fair value of plan assets were as follows:

2016

	£000
At 15th December 2014	-
Expected return on plan assets	12
Contributions by employer	1,659
Contributions by members	503
Benefits paid	13
At 31 March 2016	2,187

Notes (continued)

7 Employee benefits (continued)

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	(1,659)
At 31 March	(1,200)

The fair value of the plan assets and the return on those assets were as follows:

	2016
	£000
Equities	1,439
Corporate bonds	195
Real Estate	135
Other	418
	2,187

Actual return on plan assets	**£203k**

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.

Notes (continued)

7 Employee benefits (continued)

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Salary increases are expected to be 1% p.a. until 31 March 2016 and 1.8% p.a. thereafter
- Current pensioner aged 65: 22.8 years (male), 23.7 years (female)
- Future retiree upon reaching 65: 25 years (male), 26 years (female)

The LLP expects to contribute approximately £1,622k to its defined benefit plan in the next financial period.

Sensitivity Analysis

Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	3,110	3,184	3,259
Projected service cost	2,546	2,606	2,668
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	3,184	3,184	3,184
Projected service cost	2,607	2,606	2,605
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	3,260	3,184	3,110
Projected service cost	2,667	2,606	2,546
Adjustment to life expectancy assumptions	+1 Year	None	- 1 Year
Present value of total obligation	3,266	3,184	3,104
Projected service cost	2,673	2,606	2,541

Notes (continued)

8 Post balance sheet events

There were no post balance sheet events requiring adjustment or disclosure within the financial statements.

9 Ultimate parent organisation

The LLP's ultimate parent undertaking is Scottish Borders Council, one of its designated members, as this is the largest group into which the results of the LLP are consolidated. The consolidated group financial statements of Scottish Borders Council may be obtained from its registered office at the Scottish Borders Council offices, Newtown St Boswells, TD6 0SA.

KPMG

cutting through complexity

Scottish Borders Council Pension Fund

Annual audit report to Scottish Borders Council a
administering authority for Scottish Borders Counc
Pension Fund and the Controller of Aud

For the year ended 31 March 2016

13 September 2016

Contents

About this report

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

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

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

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

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

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie who is the engagement leader for our services to Scottish Borders Council Pension Fund, telephone 0131 527 6682, email: hugh.harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Executive summary

Audit conclusions

- We propose to issue an unqualified audit opinion on the financial statements of the Scottish Borders Council Pension Fund, following receipt of the management representation letter. Page 11

Financial position

- The latest triennial valuation (as at 31 March 2014) shows the funding level at 101% which corresponds to a surplus of £2.9m The next triennial valuation will be carried out for the Fund as at 31 March 2017.
- The number of pensioners have increased during the year to 3,157 resulting in an increase in pension benefits during the year of £1.2m which has contributed to the net withdrawal position of £2.1m from dealing with members. Page 6-9
- Challenging market conditions have resulted in a small decrease in net assets of £2.6m during the year to £542.6m as at 31 March 2016. Investment returns have been particularly affected with the market value of investments decreasing £3.6m during the year which compares to an increase of £58.5m in the prior year. Despite difficult market conditions, the fund has continued to exceed the return benchmarks over both 1 and 3 year periods.
- The challenging economic environment is expected to continue for the foreseeable future particularly following the Brexit vote on 23 June 2016 which has provoked a greater sense of uncertainty in the financial markets.

Financial statements and related reports

- We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy and plan document. We concur with management's accounting treatment and judgements. Page 11–16
- One adjusted and one unadjusted difference were identified as part of our audit work. The adjusted audit difference relates to omitted investment income totaling £310,000 which has been correctly reflected in the financial statements. The unadjusted audit difference relates to the valuation of investment assets and amounts to £132,000 which is immaterial in the context of the financial statements. We have no matters to highlight in respect of independence and changes to management representations.

Wider scope

- We considered the four audit dimensions and focused on governance and transparency given it's significance to the Pension Fund. Page 18-20
- We concluded positively on the governance arrangements in place. A strong internal control environment was found to be in operation, transparency was evident with all board minutes being published, and effective scrutiny of decisions was apparent led by the Pension Board.

Executive summary
Scope and responsibilities

Purpose of this report

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

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

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

Accountable officer responsibilities

The Code sets out the Pension Fund’s responsibilities in respect of:

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

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix three sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

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

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

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to members and our presentation to the audit and risk committee, together with previous reports to the Pension Fund Committee throughout the year, discharges the requirements of ISA 260**.**

Financial position

Financial position

Overview

The key component in assessing the financial position of the Pension Fund is the triennial valuation in which the Fund's actuary undertakes every three years (in line with the Local Government Pension Scheme Regulations 2014) for the purposes of setting employer contribution rates for the forthcoming triennial period.

As part of this section, the most recent actuarial valuation has been analysed and our conclusions highlighted in respect of our IAS 26 assumptions review. The financial performance during the year has been assessed from a review of the fund account, and the financial position at the year end appraised with reference to the net assets statement.

Triennial valuation

The actuarial valuation assesses the health of the Fund and provides a check that the funding strategy and assumptions used are appropriate. The 2014 Actuarial Valuation was undertaken for the Fund as at 31 March 2014 and was completed during the financial year 2014 - 15 by the Fund's actuaries, Barnett Waddingham.

The funding level at 31 March 2014 was 101%, which was above the valuation as at 31 March 2011 and corresponded to a surplus of £2.9m (the smoothed asset value totalled £490.5m and the scheme liabilities were valued at £487.6m).

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns.

The next detailed actuarial valuation will be carried out for the Fund as at 31 March 2017.

IAS 26 assumptions review

The Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

Our team of in-house actuaries reviewed assumptions used in the valuation. It is understood from the Barnett Waddingham correspondence that:

- the assumptions considered in this report are based on market conditions at 31 March 2016; and
- the average duration of the liabilities is 19 years for the year ended 31 March 2016.

Please see a summary table on the following page of the assumptions applied together with a comparison to KPMG's guidance rates.

Overall the assumptions proposed by the employer can be considered to be reasonably balanced.

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Financial position (continued)

Assumptions	Scottish Borders Council	KPMG Central	Assessment
Discount rate	3.70%	3.48%	Acceptable
RPI inflation	3.30%	3.23%	Acceptable
CPI inflation/Pension Increases	2.40% RPI less 0.90%	2.23% RPI less 1.0%	Acceptable
Salary growth	4.20% CPI plus 1.80%	Typically 0%-1.5% above RPI	Acceptable – This assumption is one for the employer to take a view on, based on expectations of future pay growth. The proposed assumption is acceptable under IAS 19 as it is in line with the Directors' best estimate view on future remuneration.
Life Expectancy at age 65	Male age 65: 22.8 Male age 45: 25.0 Female age 65: 23.7 Female age 45: 26.0	Male age 65: 22.2 Male age 45: 23.9 Female age 65: 24.2 Female age 45: 26.1	Acceptable

Financial position

Current membership of the Fund is 10,259 of which 4,594 are actively contributing and 3,157 are in receipt of pension benefits. There has been a slight increase in relation to active contributing membership and a continuing rise in the number of pensioners. Total contributions have increased by £0.4m and benefits payable have increased by £1.2m during the year. This is has led to the current year net withdrawal position of £2.0m (2014-15: £1m) from dealing with members.

Net return on investments decreased significantly to £2.7m in 2015-16 (2014-15: £62.9m) primarily due to much more challenging market conditions during the year which have resulted in a decrease of £2.6m in the market value of investments which compares to an increase of £58.5m in the prior year. Investment returns are monitored by the Pension Fund Committee throughout the year, and from 1 April 2015, the detailed review of individual investment manager performance has been delegated by the Pension Fund Committee to the Investment and Performance Sub-Committee. Recent historic performance of the fund has been stable against the backdrop of volatile investment markets.

Given the challenging market conditions, there has been a net decrease of £2.5m in the fund during the year ended 2015-16 which compares to a net increase of £59m in the prior year.

Financial position (continued)

Fund account		
£m	**2016**	**2015**
Contributions and benefits		
Contributions receivable	18.6	18.2
Transfers in	0.4	0.7
	19.0	**18.9**
Benefits payable	(20.3)	(19.1)
Payment on account of leavers	(0.7)	(0.8)
	(21.0)	**(19.9)**
Net withdrawals from dealing with members	(1.9)	(1.0)
Management expenses	**(3.3)**	**(2.9)**
Return on investments		
Investment income	6.4	4.6
Change in market value of investments	(3.5)	58.4
Taxes on income	(0.1)	(0.2)
Net returns on investments	**2.7**	**62.9**
Net increase/(decrease) in the fund	(2.6)	59.0
Opening Net Assets of the Scheme	**545.1**	**486.1**
Closing Net Assets of the Scheme	**542.6**	**545.1**

Net assets statement		
£m	**2016**	**2015**
Equities	203.9	216.5
Managed funds:		
Property	32.5	28.7
Global equities	82.9	76.2
UK equities	62.4	65.3
Bonds	18.6	18.4
Diversified fixed income	39.9	39.9
Alternatives	92.5	93.8
Open ended investment contracts	1.7	1.7
Derivatives – forward foreign exchange	1.4	(2.5)
Cash deposits	5.7	6.5
Other investment balances	0.9	0.7
Current assets and liabilities		
Cash balances	1.4	1.1
Contributions due from employers	0.2	0.1
Current assets	0.4	0.1
Current liabilities	(2.1)	(1.4)
Total net assets	**542.6**	**545.1**

The above allocation of investment assets is in line with the mandates provided to the investment managers and is also consistent with the Statement of Investment Principles.

Financial position (continued)

Return on investment	1 Year rolling return		
	Fund	Bench[1]	LA[2]
	%	%	%
Total fund including Currency Hedging	(0.1)	(0.4)	0.2
Global equities including UK	2.9	(0.4)	(1.6)
UK equities	(3.7)	(3.9)	(3.8)
Pooled bonds	(0.4)	0.5	0.2
UK government bonds	3.3	3.2	2.9
UK corporate bonds	(0.4)	0.4	(0.9)
Property	10.3	10.6	10.5
Alternatives	(1.6)	4.6	8.7
Cash	0.4	0.3	2.2

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 fund return over 1 year was (0.1%) p.a. compared to a benchmark of (0.4%). This positive performance against the benchmark was supported by a strong performance from Morgan Stanley in the global equities market. This market produced a 2.9% 1 year return against a benchmark of (0.4%). This positive performance helped to offset under performance by Harris Associates in global equities, M&G in bonds and LGT in alternative portfolios. Please refer to the above table for further details on the return on investment produced by each assets class against their benchmarks.

The performance of the fund in all of the asset classes with the exception of UK corporate bonds and the alternative portfolios exceeded the 3 year benchmark return.

Financial plans 2016-17

Management does not budget financial performance of the Pension Fund due to the nature of income and expenditure.

Conclusion

The Pension Fund has maintained a strong financial position during 2015-16 despite very challenging market conditions. There has been a small decrease in net assets of £2.6m to £542.62m as at 31 March 2016. The fund's return over 1 and 3 year periods exceeded the benchmarks showing the fund is continuing to perform well in a difficult economic environment.

Financial statements and related reports

Audit conclusions

Audit opinion

Our audit work is complete subject to receipt of a management representation letter and an update of subsequent events. Following approval of the annual accounts by the Pension Fund Committee we intend to issue an unqualified opinion on the truth and fairness of the state of the Pension Fund's affairs as at 31 March 2016, and of the Pension Fund's net decrease for the year then ended. There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The Pension Fund is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"). 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). Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

There was one audit adjustment made to the draft annual accounts which impacted on the net assets and investment income for the year. There was also one judgemental unadjusted audit differences in relation to the valuation of investments. This misstatement is less than our materiality threshold hence it does not require to be adjusted in order for us to issue an unqualified audit opinion. Further details of these audit misstatements are provided in appendix one.

Written representations

There are no changes to the standard representations required for our audit from last year.

Materiality

We summarised our approach to materiality in our audit strategy. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our planning materiality for 2015-16 of £470,000 remains appropriate. We report all misstatements greater than £24,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinion(s) and conclusion(s) we have:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management to gain a better understanding of the work performed in relation to prevention and detection of fraud.

Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 11 July 2016. This included the management commentary and governance statement.

Significant risks and other focus areas in relation to the audit of the financial statements

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

Significant risks:

- management override of controls fraud risk.

Other focus areas:

- fraud risk from income recognition;
- valuation of investments.

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

Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from management override of controls Professional standards require us to communicate the fraud risk arising as a result of management override of controls as a significant risk; as management are typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	Our audit methodology incorporated management override of controls as a default significant risk. We did not identify any specific additional risks of management override as part of the audit of the fund. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including testing over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.	We found no instances of management override of controls from our audit testing and witnessed evidence of a strong control environment in operation.

Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from income recognition Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. Given that income only comprises of contributions received and investment income, we do not regard the risk of fraud from the recognition of this revenue as significant given the income figures are taken directly from payroll and investment reports respectively.	In relation to contribution income, we performed detailed controls testing over the contribution return reconciliations, and over starters and leavers. We also performed various substantive analytical procedures together with detailed cut-off testing to ensure contribution income has been recognised in the correct accounting period. In relation to investment income, detailed substantive procedures were carried out with a sample of income transactions being vouched to fund manager reports. The movements in the values of the investment assets were verified by obtaining third party confirmation of 100% of the investments held at the year end.	We found no instances of fraud arising from our income controls testing and substantive work. We did however identify that investment income was understated at the year end. The finding was presented to management and they processed the appropriate adjustment, see appendix one for further details.
Valuation of investment assets Valuation of investment can be one of the more volatile elements of the financial statement and in the case of the pension fund is a material balance. Due to the inherent risk, we give additional focus to the accounting of the valuation of investments.	To gain assurance over the valuation of the year end investments, we obtained third party confirmations over 100% of the year end valuation of investments from the fund managers directly and compared it to the valuation on draft financial statements. We tested all the investments and performed pricing audit procedures over listed investments of the Fund. The year end bid values were assessed using our internal research tools to determine the reasonableness of the year end fund manager's valuation.	We found differences between the direct confirmations from the fund managers and reported values on the draft financial statements. The differences were presented to management as a proposed audit adjustment as set out in appendix one. Given the amount is immaterial to the financial statements, management opted not to adjust for this misstatement.

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management Commentary	The financial statements form part of the annual report for the year ended 31 March 2016. We reviewed the content of the management commentary against the disclosure requirements and are content with the proposed reports. The overall quality of the management commentary was good with clear presentation throughout. We provided management with some relatively minor suggestions relating to how the reports could be enhanced and where additional information disclosures should be made.	We are satisfied that the information contained within the management commentary is consistent with the financial statements.
Annual governance statement	The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Pension Fund's governance framework, operated internal controls, and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework.	We consider the governance framework and annual governance statement to be appropriate for the Pension Fund and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Pension Fund to be appropriate, and there have been no changes to adopted accounting policies in the year. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code.

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

Future accounting and audit developments

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

Wider scope

Wider scope
Audit dimensions introduction

Introduction

The Code frames the wider scope of our audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value.

It remains the responsibility of the audited body to ensure that they have proper arrangements in place across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we have considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

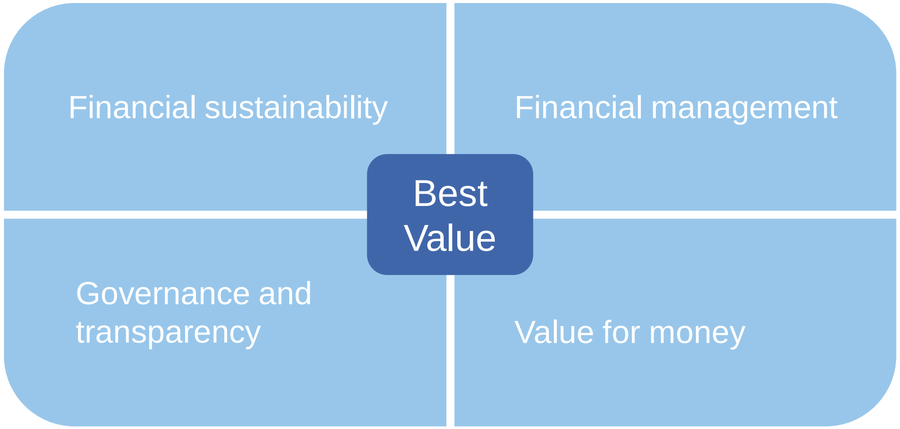
Audit work and conclusions

Given the nature of the Pension Fund, the audit dimensions of financial sustainability, financial management and value for money are all captured within governance and transparency as this audit dimension is central to every aspect of the Pension Fund.

The audit dimensions are achieved through the governance procedures in place. Effective financial management and sustainability is directed by the Pension Fund Committee through committee meetings using guidance provided by the Pension Fund's investment consultant and actuary. Value for money is delivered through the mandates provided to the investment managers and is also reviewed as part of the regular committee meetings.

We will summarise the work we have undertaken in the year to obtain assurances over the arrangements in place and our conclusions on the effectiveness and appropriateness of these arrangements.

Where we have found arrangements to not be effective or are absent we have provided further narrative and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



Wider scope

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance Information.

In considering governance and transparency we performed the following work:

Reviewing the organisational structure, reporting lines and level of scrutiny within the Pension Fund.

The Pension Fund demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee meetings. Decisions are transparent as actions are documented within detailed board minutes which are available on the Scottish Borders Council website.

The Pension Fund Committee has overall responsibility for ensuring sound governance arrangements are in place but has been supported by the Pension Board and the Investment and Performance sub-committee from 1 April 2015. This Pension Board and the sub-committee were set up in response to the new governance regulations published by the Scottish Government in February 2015. The Pension Board offers increased scrutiny over the Pension Fund Committee's decisions and the Investment and Performance sub-committee has provided additional assistance in monitoring investment performance. We are satisfied that the Pension Fund's new arrangements are in compliance with the new governance regulations published by the Scottish Government.

Reviewing the annual governance statement

Our observations and conclusions on the annual governance statement are provided on page 15.

Reviewing and testing the internal control environment.

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work. KPMG's identification of weaknesses, where applicable, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

As part of our work, we undertook a review of the latest internal control reports issued by the Fund's investment managers. The exceptions reported by the independent auditors of the investment managers were reviewed and we planned our audit approach taking into account the assurance gained through these reports.

The exceptions reported recognised the internal control deficiencies had no direct impact on the Pension Fund audit, giving comfort over the evidence provided by the investment managers. Additional testing was performed to corroborate the information received from the investment managers with the custodian reports that were independently received by us.

Conclusion

Our testing confirms that controls relating to financial systems and procedures are designed appropriately and operate effectively.

We consider the governance framework to be appropriate to the Pension Fund and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

The Pension Fund Committee is effectively scrutinised by the Pension Board and all key decisions are transparent due to them being documented in detailed board minutes which are publicly available.

From reviewing the governance arrangements in place, it is clear that the Pension Fund is in compliance with the new governance regulations published by the Scottish Government.

Appendices

Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. There was one audit adjustment required to the draft annual accounts which impacted on the net assets and investment income for the year. There was also one unadjusted audit differences in relation to the valuation of investments. This misstatement is less than our materiality threshold hence it does not require to be adjusted in order for us to issue an unqualified audit opinion

		BALANCE SHEET		INCOME AND EXPENDITURE	
CAPTION	**NATURE OF ADJUSTMENT**	**£000 DR**	**£000 CR**	**£000 DR**	**£000 CR**
Investment income – Adjusted	Investment income from some of the year end fund manager reports was omitted in error. The total amount omitted totalled £310,000. Both investment assets and investment income were therefore understated at the year end. Management correctly adjusted for this and the financial statements have been correctly updated.	310			310
Investment assets – Unadjusted	Differences were identified between the direct investment valuation confirmations from the fund managers and the reported values in the draft financial statements with the net difference amounting to £132,000. The total value per the investment confirmations was higher than the amount recognised in the accounts hence the proposed audit adjustment is to increase investment assets. Management have opted not to adjust for this difference given it is immaterial to the financial statements.	132			132

Appendix two

Auditor independence

To Pension Fund Committee members

Assessment of our objectivity and independence as auditor of the Scottish Borders Council Pension Fund

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

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

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

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Pension Fund for professional services provided by us during the reporting period.

Total fees charged by us for the year ended 31 March 2016 amounted to £28,950, £23,000 of which relates to audit fees and £5,950 to specialist tax services. The audit fee in the prior year was also £23,000 and there were no non-audit services provided.

Independence and objectivity considerations relating to other matters

KPMG has been appointed as the Pension Fund's investment consultant from 1 April 2016. KPMG's period of appointment as external auditor ceases following the 2015-16 financial year hence there are no conflicts of interest.

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Pension Fund Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partner and audit staff is not impaired.

This report is intended solely for the information of the Pension Fund Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix three

Appointed auditors responsibilities

SECTION 5

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions, Conclude on whether the monitoring arrangements operate and are operating in line with recommended best practice.	Page 20 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements	Page 11 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page 15 reports on the other information contained in the financial statements, covering the annual governance statement and management commentary.
Financial statements and related reports	Notify the Controller of Audit when circumstances indicate that a statutory report may be required.	Page 11 sets out any notifications we have made to the Controller of Audit.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Page 20 sets out our conclusion on these arrangements.

Appendix three
Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	These arrangement are reviewed and concluded on as part of the Scottish Borders Council external audit. Please refer to the Scottish Borders Council audit report for further details.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 6 to 9 set out our conclusion on these arrangements.
Financial position	Review performance against targets.	Pages 6 to 9 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Page 6 to 9 sets out our conclusion on the bodies financial position including reserves balances.

cutting through complexity

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Scottish Borders COUNCIL

Scottish Borders Council Pension Fund

annual report and financial statements

for the year to 31 March 2016

Contents

REPORT BY CHAIRMAN OF PENSION FUND COMMITTEE

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 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 a 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 31/03/2015 level with only a small decrease of £2.6m.

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 of the fund's Investment Advisor was completed. Members via the Procurement Sub-Group were fully engaged in this key procurement.

Cashflow Modelling

Work commenced in conjunction with the advisor to model the Fund's 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

- **£543m Net Assets, a decrease of £2.6m on 2014/15**
- **10,259 Members, an increase of 462 on previous year**

2015/16 Successes

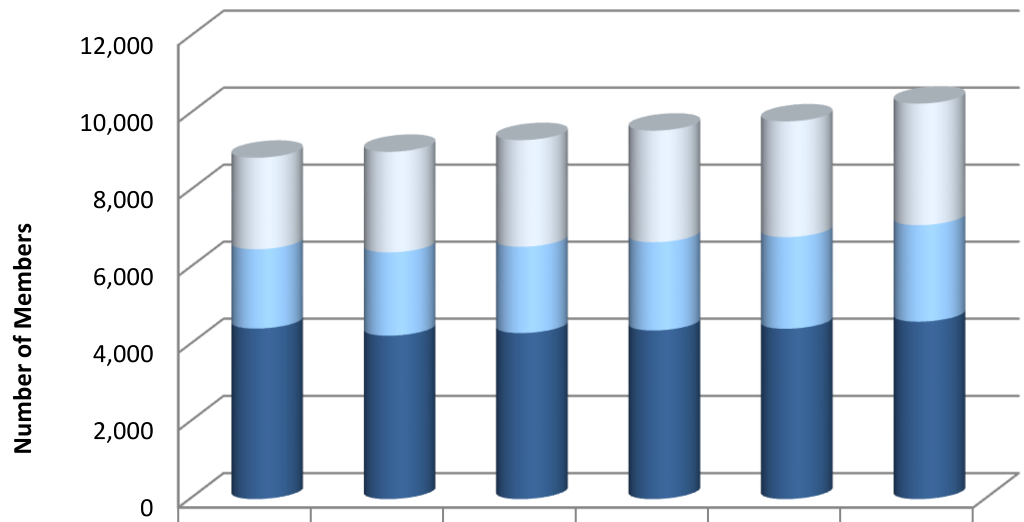
- **Implementation of the Pension Fund Board**
- **Good Engagement of Members in the Training Programme**

The Scottish Borders Council Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS) is administered by Scottish Borders Council (the Administering Authority). Note 1 to the Annual Accounts, page 28 provides a description of the Fund.

The Note sets out information in relation to the Fund's regulatory environment, funding, benefits and membership.

Overview of Fund Membership

Current membership of the Fund is 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:



	2011	2012	2013	2014	2015	2016
Pensioners/Dependents	2,376	2,611	2,771	2,898	3,006	3,157
Deferred	2,061	2,164	2,242	2,292	2,381	2,508
Contributing	4,415	4,230	4,298	4,366	4,410	4,594

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 increased 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	(9,72)	**(1,971)**
Net Return on Investments	62,860	**2,688**
Net Increase/(decrease) in the Fund during the Year	59,030	**(2,555)**
Closing Net Assets of the Scheme	545,125	**542,570**

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 which came into force on 1 April 2015 the Pension Fund Board was established. Joint meetings of the Pension Fund Committee and Pension Fund Board have been held during 2015/16.

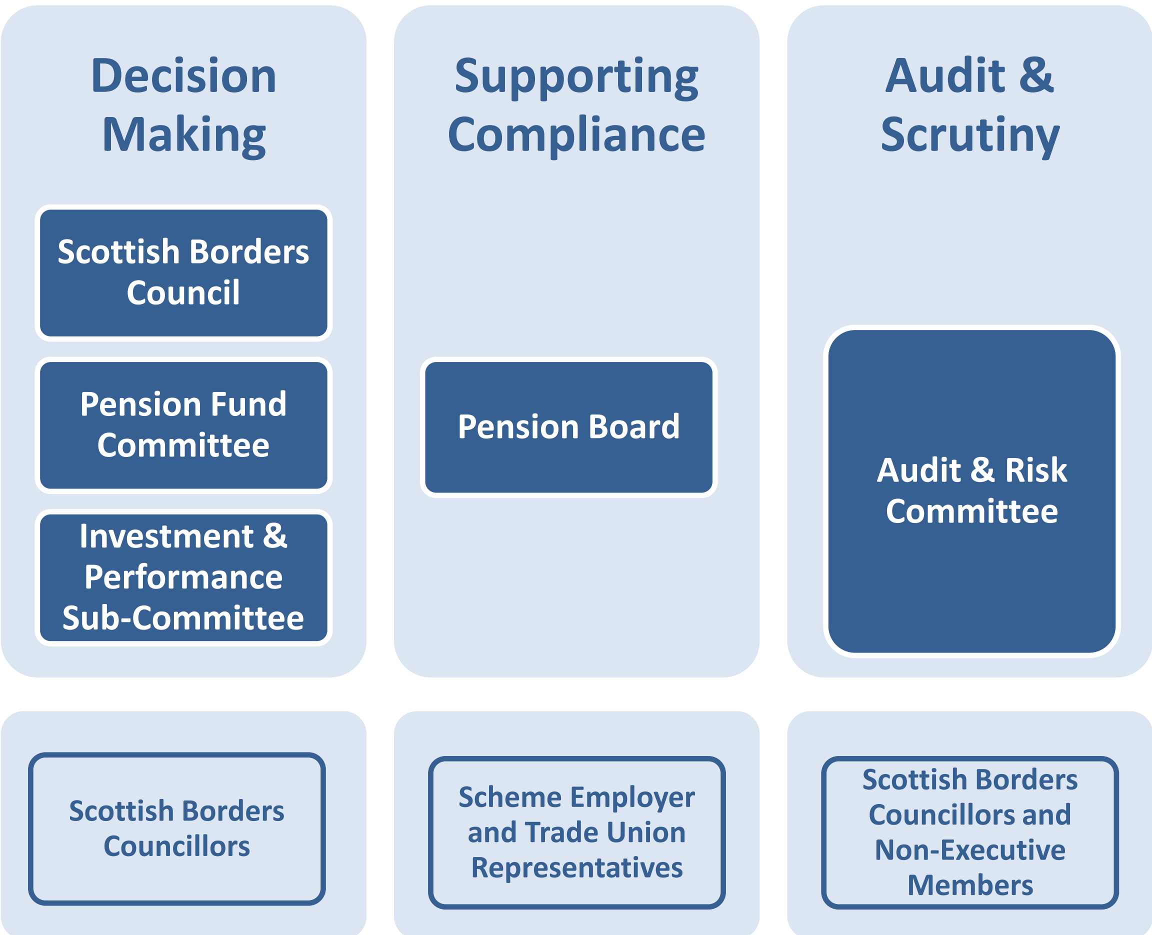
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

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 2016 can be found on pages 17 to 23.

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.

Pension Fund Committee	**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

Pension Fund Board	**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 the year to membership, seven of the eight members have met the attendance requirement and five have met the training requirement.

The Fund is able to demonstrate full compliance with the relevant best practice standards and this is set out in the Governance Compliance Statement from page 19.

Fund's Aims and Objectives

Primary Aim of the Fund

- To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

Funding Objectives

- Set levels of employer contribution that will **build up a fund of assets that will be sufficient to meet all future benefit payments** from the Fund.
- Build up the required assets in such a way that ensure levels of **employer contribution that are stable**

Pensions Administration

- Deliver a **High Quality Pension Service to Members.**

Governance

- Ensure that Scottish Borders Pension Fund is **managed effectively, transparently and remains compliant.**

The Fund approved a Business Plan for the period covering 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

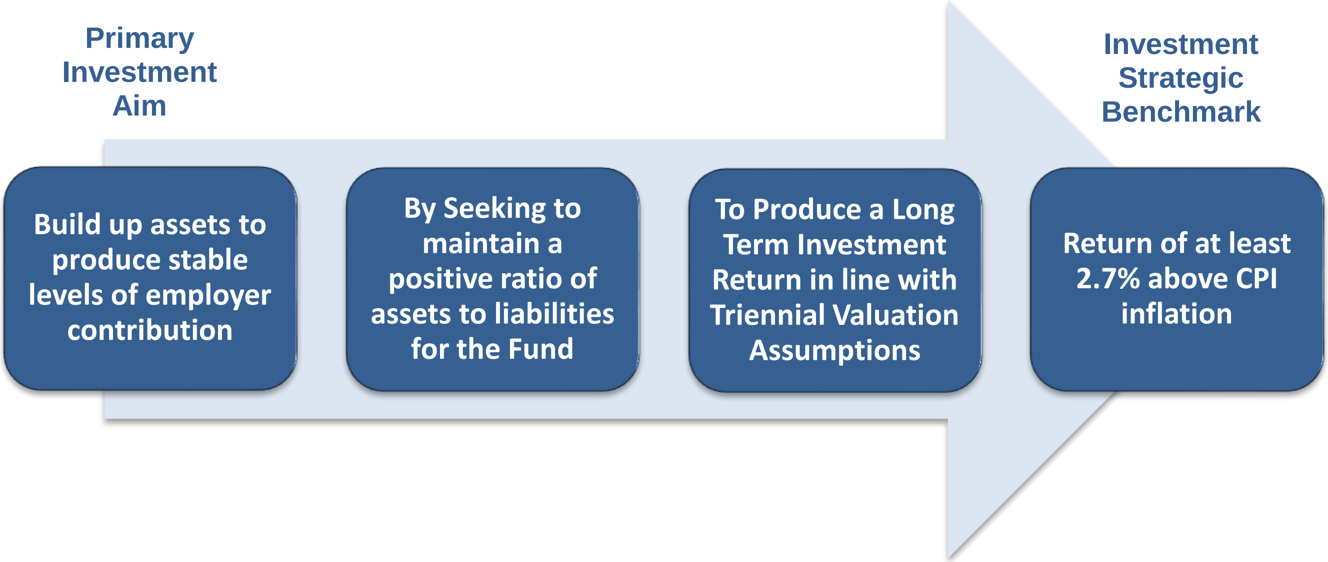
- **Implemented new governance structure, resulting in establishment of Pension Fund Board**
- **Implemented new pension administration system**
- **Procurement completed for Investment Manager**
- **Annual Report and Financial Statements produced within prescribed timescale with no audit qualifications.**

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	18.8	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.

The strategic benchmark represents the asset allocation split as approved within the Statement of Investment Principles.

MANAGEMENT COMMENTARY

Review of Investment Performance

2015/16 in Numbers

- **Strong 3 year annualised investment performance of 7.1%, 0.3% above benchmark**

Key Successes 2015/16

- **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%

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:

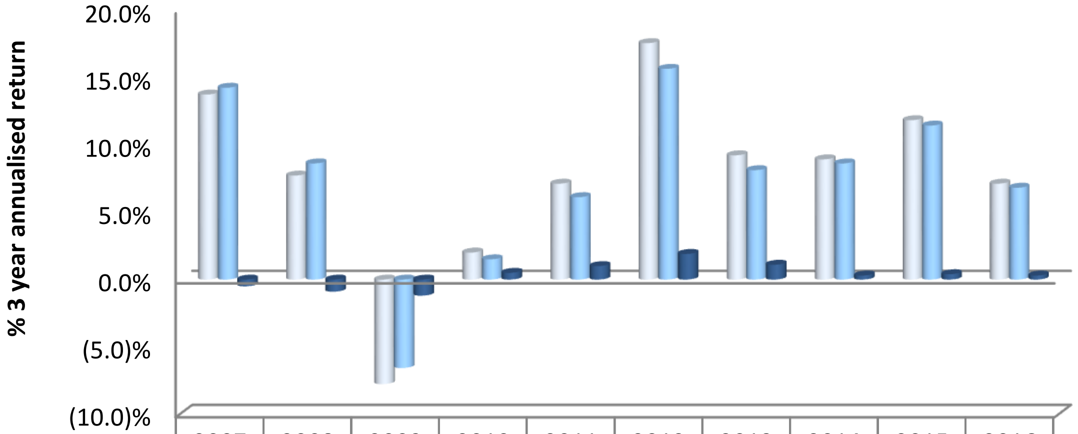
- Fears around the impact of Greek exit from Eurozone and slowing Chinese economic growth resulted in volatility across the global equity market.
- Demand for Property due to improving economic data resulted in Property being the top assets class performer.
- Interest rate increases in US resulted in 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 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



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actual Return	13.7%	7.7%	(7.8)%	2.0%	7.1%	17.5%	9.2%	8.9%	11.8%	7.1%
Benchmark Return	14.2%	8.6%	(6.6)%	1.5%	6.1%	15.6%	8.1%	8.6%	11.4%	6.8%
Relative Return	(0.5)%	(0.9)%	(1.2)%	0.5%	1.0%	1.9%	1.1%	0.3%	0.4%	0.3%

Including the impact of the passive currency hedge, the overall fund return over 3 years was 7.1% p.a. versus the benchmark of 6.7% p.a., and the Fund return over 1 year was -0.1% p.a. compared to a benchmark of -0.4% p.a. Excluding the impact of the currency hedge, the fund return over 3 years was 7.1% p.a. versus the benchmark of 6.8% p.a. and the fund return over 1 year was 0.9% p.a. versus the 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 material 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 benchmark. The rolling 1 year performance was aided by strong performance from Morgan Stanely 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 Fransisco	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.

	Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	**2008 £m**	**2011 £m**	**2014 £m**
Value of the Scheme Liabilities	(310.1)	(402.2)	(487.6)
Smoothed Asset Value	299.2	384.8	490.5
Surplus/ (Deficit)	**(10.9)**	**(17.4)**	**2.9**
Funding Level	**96%**	**96%**	**101%**

Note 20 to the Statement of Accounts on page 44, contains details of the outcome and assumptions used in the 2014 Valuation and the impact that it had on employer contribution rates.

This is the first valuation that has taken into account the move to an LGPS based on career average 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

Key Successes 2015/16

- Pension Administration Strategy updated and approved September 2015
- Implementation of the new LGPS Scheme April 2015
- Successful admission of additional Bodies to the Fund

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

	2014/15		2015/16	
Standard	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	Yes
Benefit Statements	by end of August	Yes

Employer Performance Measures

Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	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

29 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 (pages 19 – 23).

The review of the effectiveness of the system of internal financial control is informed by the work of professional accountancy staff within the Council, the assurances from the Chief Officer Audit & Risk's annual internal audit opinion and report on the work 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 (pages 19 – 23).

Councillor Bill White
Chairman
Pension Fund Committee
29 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	Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the **Pension Fund Committee** (the Committee). The Committee comprises of 7 elected members. The Council's Scheme of Administration sets out the Committee's remit.
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	Introduction of the **Pensions Board** (the Board) has formalised the involvement of the employers and trade unions representing the membership. The Fund's Board has 8 members, 4 employer representatives and 4 trade union representatives covering all pension fund members. 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. 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. 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.

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 Assessment					
Risk Category	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 (CPFA)
Chief Financial Officer
Scottish Borders Council

29 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	**6,359**	**12**
58,422	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	**(3,519)**	**13**
(167)	Taxes on Income	**(150)**	
62,860	**Net Return on Investments**	**2,688**	
59,030	**Net Increase/(Decrease) in the Fund during the Year**	**(2,555)**	
486,095	Opening Net Assets of the Scheme	**545,125**	
545,125	**Closing Net Assets of the Scheme**	**542,570**	

NET ASSETS STATEMENT as at 31 March 2016

2015 £'000		2016 £'000	Notes
	Investment Assets		
216,527	Equities	**203,952**	
	Managed Funds:		
28,652	Property	**32,546**	
76,217	Global Equities	**82,947**	
65,308	UK Equities- Passive	**62,415**	**15**
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	**926**	
	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		**792**	
545,125	**Net Assets**	**542,570**	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in the Actuarial Statement in Note 21.

The unaudited accounts were issued on 28 June 2016 and the audited accounts were authorised for issue on 29 September 2016.

David Robertson CPFA
Chief Financial Officer
29 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 1/80th x final pensionable salary	Each year worked is worth 1/60th x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From the 1 April 2015, the scheme will become a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 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 2015/16* (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 38 are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

Foreign Currency Transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments.

Derivatives
The Fund uses derivative financial instruments to manage its exposure to specific risks (in particular currency) arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of the derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Cash and Cash Equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial bass by the scheme actuary in accordance with the requirements of IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 21, page 47).

Additional Voluntary Contributions (AVCs)
Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2016 was £0.846m (2014/15 £0.833m). During the year contributions in 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.

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.	The effects on the net pension liability of changes in individual assumptions can be measured. - A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £44m - A 0.5% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £27m - A 0.5% increase in the long-term rate of salary increase would increase value of the liabilities by £6m, and - A 1.25% increase in assumed life expectancy would increase the deficit by £5m *Source – Triennial Valuation 2014*
Portfolio of alternative assets held in a fund of funds	The alternative assets fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds directors or independent administrators judge necessary. The fund of funds is not publically listed and as such there is a degree of estimation involved in the valuation.	The total portfolio of alternative assets held in a fund of funds is valued in the Financial Statements at £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	Contributions Receivable		Benefits Payable	Contributions Receivable
£'000	£'000		£'000	£'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	(5,569)
(676)	Income from Pooled Investment Vehicles	(771)
(59)	Interest on Cash Deposits	(19)
(4,605)		**(6,359)**

13 (PROFITS) AND LOSSES ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

2014/15 £'000		2015/16 £'000
(21,150)	Realised	1,025
(37,272)	Unrealised	2,494
(58,422)		**3,519**

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	46,438	157,515	**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	18,643	-	**18,643**
-	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**	**165,652**	**374,679**	**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**	**167,099**	**374,679**	**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 (£92.53m at 31 March 2016), are not quoted on a stock exchange.

During 2015/16, sales of investments totalled £55.7m and purchases totalled £63.7m. 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**			(1,289)	**92,526**
Other Open Ended Investment Contracts	**1,665**	-	(10)	19	**1,674**
Derivative Contracts: Passive Currency Hedge	**(2,515)**	10,738		(6776)	**1,447**
Net Investments exc. Cash Deposits	**538,010**	**63,743**	**(55,726)**	**(9,964)**	**536,063**

Significant Transactions during the year:

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	92,526
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 0.9%. Excluding the currency hedging, the return on the Fund was 0.9% with a relative return over benchmark of 0.3%.

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	2,871	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***	**586,246**	**497,146**

**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:

		Effect on Asset Values	
Asset Type	**Value as at 31 Mar 16 £'000**	**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 £2.9m. The following table summarises the funding position.

Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	**2011 £m**	**2014 £m**
Value of the Scheme Liabilities	(402.2)	(487.6)
Smoothed Asset Value	384.8	490.5
Surplus/ (Deficit)	**(17.4)**	**2.9**
Funding Level	**96%**	**101%**

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two.

The next detailed actuarial valuation will be carried out for the Fund as at 31st March 2017.

New LGPS Benefits Impact on Benefits Projections

The Actuarial Valuation Report identified the estimated additional pension and lump sum benefits projected to come into the payments of benefits in each year during the period 1 April 2015 to 31 March 2018 as a result of the changes to the LGPS benefits. These are set out as follows:

Financial year	**Additional Retirement Benefits**	***Increase versus 2014/15 Base***
2014/15 Base (per Note 8)		19.1
2015/16	3.4	*17.8%*
2016/17	5.2	*27.2%*
2017/18	5.4	*28.3%*

Valuation Assumptions

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2014) were:

	2011 Valuation		2014 Valuation	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities/absolute return funds	6.9	3.4	**5.9**	**2.6**
Gilts	4.3	0.8	**3.6**	**-**
Bonds	5.5	2.0	**4.1**	**0.5**
Property	5.5	2.0	**5.5**	**1.9**
Multi Asset Fund	-	-	**5.9**	**2.3**
Expense Allowance				
Retail Price Inflation (RPI)	3.5	-	**3.6**	**-**
Pay Increases – Long Term	5.0	1.5	**4.6**	**2.0**
Pension Increases	3.0	(0.5)	**2.8**	**(0.8)**
Discount Rate	6.4	2.9	**5.5**	**1.9**

Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S1PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2013 projections, with a long term rate of improvement 1.5%.

Commutation Assumption

It is assumed that future retirees will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules.

Employer Contribution Rates

As part of the 2014 Actuarial Valuation, the actuary certified the common rate of contribution as 18% of payroll for the next three years.

Individual and pooled employers' rates vary from the common contribution rate (18.0%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e. the rate which employers in the Fund pay):

Employers Contribution Grouping	Employers Contribution Rate	
	2015/16	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

On 23 June 2016, the result of the Referendum on membership of the European Union (EU) was a majority vote to leave. This resulted in initial increase volatility in some markets. The longer term effect on the investments held and inflation on the liabilities is currently unknown and the Pension Fund's longer term investment strategy, which is currently under review, will evolve as the implications of these changes emerge.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Scottish Borders Council as administering body for Scottish Borders Council Pension Fund and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Scottish Borders Council Pension Fund ("the Fund") for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

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

Respective responsibilities of the Chief Finance Officer of Scottish Borders Council and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the financial transactions of the fund during the year ended 31 March 2016, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Independent auditor's report to the members of Scottish Borders Council as administering body for Scottish Borders Council Pension Fund and the Accounts Commission for Scotland
(continued)

Opinion on other prescribed matter

In our opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement 2015/16 has not been prepared in accordance with Delivering Good Governance in Local Government; or
- the Governance Compliance Statement 2015/16does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Hugh Harvie
for and on behalf of KPMG LLP
Chartered Accountants
Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG
29 September 2016

ANNEX 1

STATEMENT OF INVESTMENT PRINCIPLES

The key aspects of the Statement of Investment Principles (SIP) for the Scottish Borders Council Pension Fund are set out below. The full SIP was approved by the Pension Fund Committee on 18 June 2015 and a copy of this document can be found at: www.scotborders.gov.uk/pensions

1. The Fund's Objectives (Section 3, page 4 of SIP)

Primary Aim

1.1 The primary aim of the Fund is:

"To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis."

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

Funding Objectives

1.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

i To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.

ii To build up the required assets in a way that produces employer contributions, which are as stable as possible.

1.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

2. Investment Policy (Section 4, page 6 of SIP)

Investment Strategy

2.1 The Investment Strategy's primary aim is to deliver the funding objective in 1.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.

2.2 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.

2.3 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.

2.4 The Fund's current **total target is to generate a return of at least 2.7% above CPI inflation** assumed as the real discount rate at the actuarial valuation as at 31 March 2014.

3. Types of Investment (Section 5, page 9 of SIP)

3.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- UK Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions

3.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian

4. Investment Management Arrangements (Section 4, page 6 of SIP)

4.1 The agreed Strategic Asset Allocation for the Fund is currently as follows (Appendix 3, page 13 of SIP):

Asset Class	Manager	Strategic Benchmark %
UK Equity	UBS	*12.6%*
	Baillie Gifford	*6.4%*
	Sub Total	**19.0%**
Global Equity	Harris Associates	*9.9%*
	Baillie Gifford	*21.7%*
	Morgan Stanley	*14.4%*
	Sub Total	**46.0%**
Total Equity		**65.0%**
Bonds		
Alpha Opportunities	M&G	*10.5%*
Govt. Fixed Interests Bonds	M&G	*2.25%*
Corporate Fixed Interest Bonds	M&G	*2.25%*
	Total	**15.0%**
Alternatives		
Multi-Asset Alternatives Fund	LGT Partners	15.0%
Property	UBS	5.0%
	Total	**20.0%**
Cash		0.0%
Total		**100.0%**

4.2 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.

4.3 The current investment management arrangements are set out below (Appendix 4, page 14 of SIP)

Asset Class	Manager	Performance Objective (all net of fees) relative to Benchmark Return	Benchmark Indices Used
UK Equity	UBS	+0.0%	FTSE All-Share Index
	Baillie Gifford	+1.0%	FTSE All-Share Index
Global Equity	Harris Associates	+2.5%	MSCI 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

ANNEX 2

GLOSSARY OF TERMS

ACTIVE MANAGEMENT
An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or *asset allocation.* Compare this with *Passive Management*.

ASSET ALLOCATION
The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short term tactical changes might be made to achieve short-term advantage.

ALTERNATIVE ASSETS
This is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult.

BALANCED MANAGEMENT
An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with *specialist management.*

BENCHMARK RETURN
This is calculated against the Fund's chosen "benchmarking" group, which comprises a composite of different market indices. The indices in use cover all the markets in which the Fund is invested.

CONTRIBUTING MEMBER
This is someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an "active" member.

DEFERRED MEMBER
This is someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.

GROWTH MANAGER
An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with *value manager.*

INVESTMENT MANAGER/FUND MANAGER
A person or organisation that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients

MANDATE
An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

PASSIVE MANAGEMENT
A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with *active management*.

PENSIONER/DEPENDENT MEMBER
This is someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.

POOLED FUND
A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with *segregated fund*.

REALISED GAIN OR LOSS
Only when an investment is sold does the Fund actually make a profit or loss.
Realised profits and losses are those that have actually arisen via sales throughout the year.

RETURN
The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

RISK
The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

SEGREGATED FUND
The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a *pooled fund*.

SPECIALIST MANAGEMENT
The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

UNREALISED GAIN OR LOSS
The Statements of Accounts are based on the market value of investments at 31 March 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

Graeme Wilson	Telephone 01835 – 824000	Ext 5341
	E-mail gwilson@scotborders.gov.uk	

Scheme members should have a copy of the "Employees' Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council", and can obtain their own copy of an Annual Report on request.

or visit Scottish Borders Council Pension Fund website at: ***www.scotborders.gov.uk/pensions***

For further information on the Fund's investments, please contact

Lynn Mirley	Telephone 01835 – 825016
Corporate Finance Manager	E-mail lmirley@scotborders.gov.uk

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

Contact us at Lynn Mirley, Corporate Finance Manager, Corporate Finance, Council Headquarters, Newtown St Boswells Melrose TD6 0SA
Tel: 01835 825019 Fax: 01835 825011 or email: lmirley@scotborders.gov.uk

Scottish Borders COUNCIL

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Scottish Borders Health and Social Care Partnership Integration Joint Board

Annual audit report to the Members of Scottish Borders Health and Social Care Partnership and the Controller of Audit

For the year ended 31 March 2016

6 September 2016

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Agenda Item 7a

Contents

About this report

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

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

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

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

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

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie who is the engagement leader for our services to Scottish Borders Health and Social Care Partnership, telephone 0131 527 6682, email: hugh.Harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Audit conclusions

- We expect to issue an unqualified audit opinion on the financial statements of Scottish Borders Health and Social Care Partnership Integration Joint Board ('IJB''), following receipt of management representation letters.

Financial position

- The notional financial resources expended to support the IJB in 2015-16 have been identified and disclosed within the financial statements. However, the IJB was not charged for these services, the costs being borne in their entirety by either Scottish Borders Council or NHS Borders.

Financial statements and related reports

- We have concluded satisfactorily in respect of each significant risk and audit focus area identified. We concur with management's accounting treatment and judgements, including going concern. We have no matters to highlight in respect of: unadjusted audit differences; independence; and changes to management representations.
- Financial statements were of good quality when received; with only a few minor presentational changes required.

Wider scope matters

- We considered the wider scope audit dimensions and concluded positively in respect of financial management, governance and transparency and value for money.
- We also considered financial sustainability and have recommendations in this area.

Audit Conclusions

- The IJB is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code. Additional guidance on accounting for the integration of the health and social care has been created by LASAAC. Our audit confirmed that the financial statements have been prepared in accordance with the LASAAC guidance and relevant legislation.
- We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Executive summary
Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of the Scottish Borders Health and Social Care Partnership Integration Joint Board ("the IJB") under the Local Government (Scotland) Act 1973 ("the Act"). This document summarises our opinion and conclusions on significant issues arising from our audit.

Audit Scotland's Code of Audit Practice ("the Code") sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements, but also consideration of areas such as financial management and sustainability, governance and transparency and value for money.

Auditor and audited bodies' responsibilities

The Code sets out the responsibilities in respect of:

- the financial statements;
- corporate governance and systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- arrangements for preparing and publishing statutory performance information;
- financial position; and
- Best Value, uses of resources and performance.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

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

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

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

Financial position

Overview

An order to establish the Integration Joint Board was laid in the Scottish Parliament on Friday 8 January 2016 for 28 days. On 6 February 2016 the Scottish Borders Health & Social Care Partnership Integration Joint Board was legally established.

Whilst the Scottish Borders Health and Social Care Partnership operated only as a shadow board during 2015-16, with budgets and functions being aligned only and not delegated until 1st April 2016, the IJB was required to prepare financial statements for 2015-16, following the 2015-16 Code. Guidance was issued by The Local Authority (Scotland) Accounts Advisory Committee (“LASAAC”) in September 2015 on the expected content of the IJB accounts. The LASAAC guidance states that IJBs should comply with the Local Authority Accounts (Scotland) Regulations 2014, which includes the preparation of a remuneration report. The IJB appointed a Chief Officer and, on an interim basis, a Chief Finance Officer.

Financial position

CIES	£000
Income	19
Expenditure	(19)
Net expenditure	-
Balance Sheet	**£000**
Current assets	4
Current liabilities	(4)
Net assets	-

The IJB accounts relate only to the operating costs of the Board from its establishment date of 6 February 2016 to 31 March 2016. During this period, the Board received income of £19,000 and incurred expenditure of £19,000. The Board had no reserves at either its establishment date or at 31 March 2016.

The IJB received contributions from Scottish Borders Council and NHS Borders as income.

The remuneration report is appropriately produced to include the Chief Officer as this position is deemed to be a ‘relevant position’. Per LASAAC guidance the Chief Officer costs should be allocated to the IJB from its establishment date.

The balance sheet consists of Scottish Borders Council and NHS Borders debtor and creditor amounts.

Significant risks

Significant risks and audit focus areas

International Standard on Auditing (UK and Ireland) 315 (ISA): *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore requiring specific audit consideration. Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. As the IJB did not direct services during 2015-16, it did not receive income for operations and therefore we do not consider the fraud risk from revenue recognition to be significant.

We summarise below the risks of material misstatement. We set out the key audit procedures to address those risks and our findings from those procedures on the following pages, in order that the IJB may better understand the process by which we arrived at our audit opinion.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.
FOCUS AREA	**OUR RESPONSE**	**AUDIT CONCLUSION**
First year financial statements preparation	■ As 2015-16 is the first period of the preparation of the IJB's financial statements we reviewed the disclosures in the financial statements against the 2015-16 Code, the Local Authority Accounts (Scotland) Regulations 2014 and LASAAC guidance. ■ The remuneration report was reviewed to check the officers disclosed are appropriate and that the amounts are accurate by agreeing to supporting documentation.	The accounts have been prepared in accordance with the relevant legislation and guidance. Only the Chief Officer's remuneration has been disclosed as the IJB had no other employees.

Wider scope
Audit dimensions introduction

We summarise below the work we have undertaken in the year to obtain assurances over the arrangements in place for each audit dimension and our conclusions on the effectiveness and appropriateness of these arrangements.

Financial sustainability

In considering financial sustainability of the IJB we performed the following work:

- *review of the financial position of the IJB as at 31 March 2016 and future budgets and forecasts;*
- *review of Health and Social Care Partnership financial statement 2016-17 and Assurance over the Sufficiency of Resources*; and
- *review of Due Diligence 2016-17 outturn analysis.*

Management continue to work closely with the two funding providers and Scottish Government to anticipate the impact of future local government budget allocations. We consider that the IJB is financially sustainable and a going concern.

Financial management

Our conclusion below is derived from the following audit tests, carried out to determine the effectiveness of the financial management arrangements. This included:

- *review of Financial Statement 2016-17 – Overview of Due Diligence Process;*
- *review of the financial regulations for the SBC Joint Integration Board; and*
- *consideration of the finance function and financial capacity within the IJB.*

The chief financial officer was appointed on an interim basis for six months on 7 March 2016. We noted that the chief financial officer has the appropriate skills, capacity and experience to support the IJB and effectively manage the organisation.

Best Value

Governance and transparency

In considering governance and transparency we performed the following work:

- *review of the the annual governance statement within 2015-16 accounts; and*
- *review of the Health and Social Care IJB code of corporate governance*

The IJB agreed to establish an audit committee in February 2016 and agreed the membership of the committee in June 2016. The chief internal auditor was appointed in February 2016 and will provide an independent opinion on the adequacy and effectiveness of the governance framework from 2016-17.

We consider the governance framework to be appropriate for the IJB.

Value for money

We consider value for money and Best Value throughout our testing. Areas where we had a specific focus on value for money and Best Value are:

- *reviewing the expenditure of the IJB to ensure it was only concerned with the running costs of the IJB. This identified that all expenditure was in relation to running costs; and*
- *reviewing the 2016-17 financial statements and assurance over the sufficiency of resources; ensuring the focus is delivering quality service to meet increasing demand with a clear focus on value for money.*

The IJB have evidenced using their resources for the purposes of initial set up and running costs of the IJB.

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Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Our conclusion below is derived from the following audit tests, carried to determine the effectiveness of the financial sustainability arrangements.

Review of Health and Social Care Partnership financial statement 2016-17 and Assurance over the Sufficiency of Resources:

- *The report sets out the financial statement of Scottish Borders IJB for 2016-17 to 2018-19. For the year 2016-17 and 2017-18, the total integrated budget is expected to be £157.2 million in both years, it is then forecast to increase to £158.3 million in 2018-19. It should be noted that for 2017-18 and 2018-19 the budget is indicative as both NHS Borders and Scottish Borders Council's funding settlements with the Scottish Government are for 2016/17 only and will be subject to change in absolute terms for future financial years.*
- *There are considerable efficiencies and savings assumptions requiring delivery within both NHS Borders and Scottish Borders Council's respective financial plans for 2016-17, on which the proposed levels of delegated and notional resources are based. Whilst the majority of these savings have been identified and plans have been or are in the process of being developed, the majority remain high risk and, in particular, there remains £0.793 million requiring further efficiencies or service change plans to be identified.*
- *To provide the IJB with assurance over the sufficiency of the resources, scrutiny has been undertaken as part of due diligence and risk assessment.*
- *There are a number of areas of emerging or unknown financial pressures that may impact the IJB during or beyond 2016-17 for which no budget provision has been made. The IJB will work with its partners to address any pressures which may emerge in order to identify appropriate remedial action through the development of appropriate solutions, including the use of additional Social Care funding, further targeted savings on service delivery and the issuing of supplementary directions over functions to be provided and the resources accompany them.*

Recommendations

1	*The IJB should agree funding levels for 2017-18 and 2018-19 as soon as possible from both partners to allow for budget setting and planning.*
2	*Plans should be put in place as a matter of urgency for efficiency savings.*
3	*Budget provision should be put in place for areas of emerging financial pressures. A risk register should be maintained and regularly updated as financial risks emerge. The budget should also be updated regularly to reflect these risks so that financial plans can be amended accordingly.*

Conclusion: Management continues to work closely with the two partners and the Scottish Government to anticipate the impact of future local government budget and NHS allocations. We consider that the IJB is a going concern, however there are risks around the uncertainty of future funding.

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion below is derived from the following audit tests, carried out to determine the effectiveness of the financial management arrangements. This included:

- *review of Financial Statement 2016-17 – Overview of Due Diligence Process;*
- *review of the financial regulations for the Integration Joint Board; and*
- *consideration of the finance function and financial capacity within the IJB.*

The chief financial officer was appointed on an interim basis for six months on 7 March 2016. We noted that the chief financial officer has the appropriate skills, capacity and experience to support the IJB and effectively manage the organisation.

Conclusion:

The IJB has appropriate financial capacity for current operations. This is supported by financial directions and scrutiny by senior management and IJB members.

Wider scope
Audit dimensions (continued)

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In considering governance and transparency we performed the following work:

- *review of the annual governance statement within 2015-16 accounts; and*
- *review of the Health and Social Care IJB code of corporate governance.*

The IJB agreed to establish an audit committee in February 2016 and agreed the membership of the committee in June 2016. The chief internal auditor was appointed in February 2016.

Conclusion:

We consider the governance framework to be appropriate for IJB. Transparency was achieved through the online publication of IJB papers and minutes.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

We consider value for money and Best Value throughout our testing. Areas where we had a specific focus on value for money and Best Value are:

- *reviewing amounts disclosed in the of the IJB's financial statements to ensure they are in relation to the IJB.* This identified that all expenditure was in relation to running costs, after removing the Chief Officer's remuneration prior to the establishment date*;* and
- *reviewing the 2016-17 financial statements and assurance over the sufficiency of resources; ensuring the focus is delivering quality service to meet increasing demand with a clear focus on value for money.*

Conclusion:

The IJB has evidenced using its resources for the purposes of initial set up and running costs of the IJB. One adjustment was made to the financial statements to correctly reflect the remuneration of the Chief Officer.

Appendices

To the Integration Joint Board members

Assessment of our objectivity and independence as auditor of Scottish Borders Integration Joint Board ('the IJB')

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

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

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

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the IJB for professional services provided by us during the reporting period.

The audit fee charged by us for the period ended 31 March 2016 was £4,000. No other fees were charged in the period. No non-audit services were provided to the IJB and no future services have been contracted or had a written proposal submitted.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the IJB.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the IJB and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix two
Audit findings

Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. There were no audit adjustments required to the draft annual accounts.

A small number of minor presentational adjustments were required to some of the financial statement notes.

Appendix three

Appointed auditors responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions. Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.	Page 9 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income. Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.	Page 2 summarises the opinion we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports.	Page 2 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	No notifications to Controller of Audit required.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Pages 2 and 9 set out our conclusion on these arrangements.
WGA returns and grant claims	Examine and report on WGA returns. Examine and report on approved grant claims and other returns submitted by local authorities.	The IJB is below the threshold for the completion of audit work on the WGA return. We have not reported on any grant claims.

Appendix three

Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we’ve met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 9 sets out our conclusion on these arrangements. Participation in the National Fraud Initiative is not relevant for the IJB in 2015-16.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 4 and 7 set out our conclusions on these arrangements.
Financial position	Review performance against targets.	This is not applicable as no targets have been set in the IJB’s first year.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Pages 4 and 7 set out our conclusion on the IJB’s financial position and longer term financial sustainability.
Best Value	Be satisfied that proper arrangements have been made for securing Best Value and complied with responsibilities relating to community planning.	Page 6 sets out our conclusion on these arrangements.
Performance information	Review and conclude on the effectiveness and appropriateness of arrangements to prepare and publish performance information in accordance with Accounts Commission directions.	The Annual Performance Report for 2015-16 has not yet been published.

cutting through complexity

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HEALTH AND SOCIAL CARE PARTNERSHIP INTEGRATION JOINT BOARD – 2015/16 STATEMENT OF ACCOUNTS

Report by the Interim IJB Chief Financial Officer

AUDIT AND RISK COMMITTEE

26 September 2016

1 PURPOSE

1.1 **The purpose of this report is to provide the Audit and Risk Committee with an update on the process of production, audit and approval of Integration Joint Board (IJB) accounts for the period to the 31 March 2016, complying with its statutory responsibility to produce financial statements in respect of the period from its establishment on 06 March 2016 to this date.**

2 RECOMMENDATIONS

2.1 **It is recommended that the Audit and Risk Committee:**

a) Notes the draft Statement of Accounts for the operating activities of the IJB from the period of its establishment (06 February 2016) to 31 March 2016;

b) Notes the conclusions and recommendations made within the draft Annual Audit Report for the year-ended 31 March 2016.

3 BACKGROUND

3.1 The Public Bodies (Joint Working) (Scotland) Act 2014 requires that the Integration Joint Board is subject to the audit and accounts provisions of a body under Section 106 of the Local Government (Scotland) Act 1973. This means that the IJB is required to prepare and publish audited annual accounts that meet the reporting requirements specified in relevant legislation and regulation (specifically s.12 of the Local Government in Scotland Act 2003 and regulations under s.105 of the Local Government (Scotland) Act 1973).

3.2 These accounts require to be proportionate to the limited number of transactions of the IJB, yet comply with the public-sector requirement for transparency and true and fair financial reporting. Whilst these accounts formally represent the operating activities of the partnership in financial terms, NHS Borders and Scottish Borders Council are also required to report additional disclosures within their statutory accounts reflecting the formal relationship with the IJB.

3.3 These accounts require to be proportionate to the limited number of transactions of the IJB, yet comply with the public-sector requirement for transparency and true and fair financial reporting. Whilst these accounts formally represent the operating activities of the partnership in financial terms, NHS Borders and Scottish Borders Council are also required to report additional disclosures within their statutory accounts reflecting the formal relationship with the IJB.

3.4 The IJB accounts require to be prepared in draft by 30 June each financial year subject to audit, following which they require approval by its Audit Committee by 30 September and onward approval by the board itself thereafter. IJB's are specified in legislation as 'section 106' bodies under the terms of the Local Government (Scotland) Act 1973 as amended and as such they are expected to prepare their financial statements in compliance with the Code of Practice on Accounting for Local Authorities in the United Kingdom.

4 AUDIT REQUIREMENT AND PROCESS

4.1 During 2015/16, the Health and Social Care Partnership operated as a shadow board, until its 'integration start day' date on 01 April 2016, the date from which the delivery of its Strategic Plan commenced. As a result of the parliamentary process however, the date of establishment of the IJB as specified in the order and on which it became a legal entity was 06 February 2016.

4.2 The commencement date for delegation of functions to the IJB was 01 April 2016. Since this date did not occur during 2015/16, the IJB accounts do not need to include part-year contributions from NHS Borders or Scottish Borders Council or part-year payments from the IJB to respective partners for carrying out its directions.

4.3 As such, because the commencement date for delegation of functions and resources published in the Strategic Plan was 01 April 2016, the 2015/16 statutory accounts only require to include the operating costs of the IJB for the period from its establishment to 31 March 2016. This situation will obviously change for 2016/17, when fuller accounts will be required reflecting payment to / from the IJB.

4.4 Draft accounts were submitted to KPMG, the partnership's appointed External Auditor on 30 June 2016. Following a process of audit involving the supply of supplementary evidence, discussion and suggested amendments, a final draft version subject to audit opinion has been produced. This version is included as Appendix 1 to this report.

4.5 Appendix 2 details the External Auditor's draft Annual Audit Report to the Members of the IJB. When agreed, an Audit Certificate expressing the External Auditor's opinion over the Statement of Accounts will be provided for inclusion therein within it.

5 STATEMENT OF ACCOUNTS

5.1 Under the Code of Practice on Accounting for Local Authorities in the United Kingdom, the IJB accounts must meet a number of specific reporting requirements. These include:

- Management Commentary
- Statement of Responsibilities
- Annual Governance Statement
- Remuneration Report
- Balance Sheet
- Statement of Income and Expenditure
- Statement of Accounting Policies and Notes to the Accounts
- Audit Report

5.2 The Partnership's governance arrangements determine who is responsible for signing the financial statements, following specification in Regulations under s.105 of the Local Government (Scotland) Act 1973. This is provided for within the Statement.

6 AUDIT CONCLUSIONS AND RECOMMENDATIONS

6.1 At the time of reporting, a statement containing the audit opinion of the External Auditor has not yet been received. It is expected imminently however and there is no evidence to suggest there will be any issues arising as a result.

6.2 Within the draft Audit Report for 2015/16, the External Auditor has made a number of conclusions over the Statement and the wider operation of the IJB during the period to 31 March 2016, based on the audit work undertaken. In summary, these are:

Significant Risks	*There are no findings in relation to fraud risk or over-ride of controls* *The accounts have been prepared in accordance with relevant legislation and guidance within which the remuneration report has been appropriately produced.*
Financial Sustainability	*The IJB is financially sustainable and a going concern*
Financial Management	*The Chief Financial Officer (interim) has been appointed and has appropriate skills, capacity and experience.*

Governance and Transparency	*The IJB's governance framework is considered appropriate.*
Value for Money	*The IJB has evidenced using its resources for the purposes of meeting initial set-up and operating costs*

6.3 Specific to Financial Sustainability, recommendations have been made by the External Auditor. Again, in summary, these are:

Financial Sustainability

1. *The IJB should agree funding levels for 2017-18 and 2018-19 as soon as possible from both partners to allow for budget setting and planning.*

2. *Plans should be put in place as a matter of urgency for efficiency savings.*

3. *Budget provision should be put in place for areas of emerging financial pressures. A risk register should be maintained and regularly updated as financial risks emerge. The budget should also be updated regularly to reflect these risks so that financial plans can be amended accordingly.*

6.4 Work is already ongoing in respect of the areas covered by these recommendations.

6.5 No audit adjustments required to be made to the draft annual accounts and a small number of minor presentational adjustments were made to some of the financial statement notes on advice of the External Auditor.

7 IMPLICATIONS

7.1 Financial Implications

There are no costs attached to any of the recommendations contained in this report, its content being specifically recommended for noting.

4.2 Risk and Mitigations

No risks have currently been identified.

4.3 Equalities

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

4.4 Acting Sustainably

There are no significant effects on the economy, community or environment.

4.5 Carbon Management

No effect on carbon emissions are anticipated from the recommendation 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 to either the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

5 CONSULTATION

5.1 Scottish Borders Council's Chief Financial Officer and NHS Borders' Director of Finance and their relevant staff have been involved in and agreed the compilation of statement of accounts.

Approved by

Paul McMenamin
Interim IJB Chief Financial Officer **Signature ....**

Author(s)

Name	Designation and Contact Number
Paul McMenamin	Interim IJB Chief Financial Officer 01835 824000 x5277

Background Papers:
Previous Minute Reference:

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the Author. Information on other language translations as well as additional copies can also be provided.

Contact us at paul.mcmenamin@scotborders.gov.uk

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Scottish Borders
Health and Social Care
PARTNERSHIP

ANNUAL ACCOUNTS 2015/16

For the period 6 February 2016 to 31 March 2016

(Audited)

Management Commentary

Purpose

The purpose of the Management Commentary is to inform all users of the accounts and help them assess how the Integration Joint Board (IJB) has performed in fulfilling its duties.

Strategic Plan

The Scottish Borders Integration Joint Board (the Board) of Scottish Borders Health and Social Care Partnership (the Partnership) was established as a body corporate by Scottish Ministers on 6 February 2016. The Partnership has prepared a Strategic Plan for 2016 – 2019 which sets out what we want to achieve to improve health and well-being in the Borders through integrating health and social care services.

This Plan sets out a high level summary of some of what we will do when working together to deliver more personalised care, making best use of advancing technology to achieve "Best Health, Best Care, Best Value". This high-level Plan will be supported by the implementation of Strategies related to specific themes (such as Dementia, Mental Health) and Locality Plans that reflect differing patterns of need across the Borders.

The partnership's Strategic Plan describes some of the actions we will take to start to make the shift towards more community-based health and social care services, the outcomes we will seek to achieve and the steps we will take to deliver our local objectives. In addition, we describe some of the performance measures we will use to assess the progress we are making.

Our 9 Local Objectives are:

1. We will make services more accessible and develop our communities
2. We will improve prevention and early intervention
3. We will reduce avoidable admissions to hospital
4. We will provide care close to home
5. We will deliver services within an integrated care model
6. We will seek to enable people to have more choice and control
7. We will further optimise efficiency and effectiveness
8. We will seek to reduce health inequalities
9. We want to improve support for Carers to keep them healthy and able to continue in their caring role

Key Priorities

The Partnership has set itself the following key priorities for its first year of operation following its establishment on the 06 February 2016:

- To develop integrated accessible transport.
- To integrate services at a local level.
- To roll out care coordination to provide a single point of access to local services.
- To improve communication and accessible information across groups with differing needs.
- Work with communities to develop local solutions.

• Provide additional training and support for staff and for people living with dementia.
• Further develop our understanding of housing needs for people across the Borders.
• To promote healthy living and active ageing.
• To improve the transition process for young people with disabilities moving into adult disability services.
• To improve the quality of life of people with long term conditions by promoting healthy lifestyles, access to leisure services, along with support from the Third Sector.
• To improve support for Carers within our communities.
• Promote support for independence and reablement so that all adults can live as independent lives as possible.

Locality Planning

There are five commonly recognised localities in the Borders as the maps in this section show. These are based on the five existing Area Forum localities - Berwickshire, Cheviot, Eildon, Teviot & Liddesdale, and Tweeddale. Summary profiles for each of the five localities show some of the differences between them. As part of the planning process, we will build more detailed locality profiles, including a wider range of measures relevant to health and social care. This will allow us to target need most appropriately.

Financial Performance

The Scottish Borders Health and Social Care Partnership operated only as a shadow board during 2015/16, with budgets and functions being aligned only and not delegated until 01 April 2016. These accounts relate therefore only to the operating costs of the Board from its establishment date of 6 February 2016 to 31 March 2016. During this period, the Board received income of £19,000 and incurred expenditure of £19,000. The Board had no reserves at either its establishment date or at 31 March 2016.

Financial Risks

Management of risk and in particular, Financial Risk is one of the key responsibilities of the Board. Work continues currently to develop both Strategic and Operational Risk Registers for the Partnership and in relation to Financial Risk in particular, the following key areas of risk and uncertainty have been identified:

- Real-term funding reductions
- Insufficient transformation funding
- Slippage in the ambitious programme to transform to new models of care
- Further political policy initiatives and funding conditions
- The delivery of challenging efficiency and savings programmes
- Future demographic (demand) pressures
- Increasing market / provider costs of health and social care services
- Market / provider failure
- Price volatility, in particular increased Drugs costs
- Failure of financial planning, management and governance
- Other emerging pressures

Annual Accounts

The Integration Joint Board is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 requires to 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 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

Councillor Catriona Bhatia **Chair**	**Susan Manion** **Chief Officer**	**Paul McMenamin** **Interim Chief Financial Officer**

On behalf of the Councillors and Officers of Scottish Borders Health and Social Care Partnership

30 September 2016

Remuneration Report

Introduction

The remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014. These Regulations require various disclosures about the remuneration and pension benefits of senior employees in respect of earnings etc. paid by the Board. The Board does not make payment to any member of the Board, by way of salary, enhanced pension benefits or reimbursement of expenses.

The Chief Finance Officer and Secretary to the Integration Joint Board do not receive remuneration from the IJB. The duties of these posts are covered by each post holder's substantive posts in Scottish Borders Council and NHS Borders respectively.

Remuneration

The term remuneration means gross salary, fees and bonuses, allowances and expenses, and compensation for loss of employment. It excludes pension contributions paid by the Employer. Pension contributions made to a person's pension are disclosed as part of the pension benefits disclosure below.

Remuneration of Senior Employees

The term 'Senior Employee' means:

1. Any employee who has responsibility for the management of the Integration Joint Board to the extent that the person has the power to direct or control the major activities of the Board (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with other persons;
2. Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of Local Government and Housing Act 1989 (4); or
3. Whose annual remuneration, including any remuneration from a local authority subsidiary body, is £150,000 or more.

Susan Manion, IJB Chief Officer is the only employee of the Board remunerated during the period. No Board employee received more than £50,000 remuneration during the period. The Chief Officer of the Board holds an employment contract with NHS Borders on NHS pay terms and conditions.

The annual remuneration of all employees of the Board is set by reference to national arrangements agreed by the Scottish Government under Ministerial Direction and in accordance with relevant NHS Pay and Conditions of Service Circulars.

Officers receive reimbursement for business mileage and subsistence allowances in accordance with nationally agreed rates which form part of the employee's contractual terms and conditions of employment. The table below details the reimbursement payment of business mileage and subsistence allowances received by the Chief Officer.

Salaries, Fees and Allowances relating to the Chief Officer for the period amounted to **£15,866.**

	Salaries, Fees and Allowances for Period to 31 March 2016 £	Total Remuneration £
Chief Officer (Full Year Equivalent = £102,749)	15,160	15,160
Other Employee Expenses	706	706
Totals	**15,866**	**15,866**

*Based on 54/366ths of £102,749 pro-rata of total annual costs representing period from 06 February to 31 March 2016

During the period, there was no payment of bonuses, taxable expenses, compensation for loss of employment or non-cash benefits. No exit packages were agreed by the Board during this period.

NHS Pension Scheme

All employees working for the Board are eligible to become members of the National Health Service Superannuation Scheme for Scotland or the Scottish Borders Local Government Pension Scheme.

The Chief Officer of the Board holds an employment contract with NHS Borders on NHS pay terms and conditions of employment and is a member of the NHS Pension Scheme. Details of the NHS Scheme are provided below. Full information on the NHS Pension Scheme can be sourced from the Scottish Public Pensions Agency website via the following link: http://www.sppa.gov.uk

The NHS Board participates in the National Health Service Superannuation Scheme for Scotland. The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations.

The National Health Service Superannuation Scheme for Scotland is a multi-employer scheme where the share of the assets and liabilities applicable to each employer is not identified. The NHS Board will therefore account for its pension costs on a defined contribution basis as permitted by IAS 19. NHS Borders has no liability for other employers' obligations to the multi-employer scheme.

The most recent actuarial valuation at 31 March 2014 discloses a liability of £39.5 billion (March 2013: £29.1 billion) with £1.4 billion to be met by employing authorities. Consequently the employer's rate of contribution increased from 13.5% to 14.9% on 1 April 2015.

Changes to the scheme were implemented from 01 April 2008 and again from 01 April 2015.

The new NHS Pension Scheme (Scotland) 2015: From 01 April 2015 the NHS Pension Scheme (Scotland) 2015 was introduced. This scheme is a Career Average Re-valued Earnings (CARE) scheme. Members will accrue 1/54th of their pay as pension for each year they are a member of the scheme. The accrued pension is re-valued each year at an above inflation rate to maintain its buying power. This is currently 1.5% above increases to the Consumer Prices Index (CPI). This continues until the member leaves the scheme or retires. In 2015/16 members paid tiered contribution rates ranging from 5.2% to 14.7% of pensionable earnings. The retirement age for members of the CARE scheme is the Employee's State Pension age. Members can access their accrued pension benefits earlier than their retirement age however an actuarial reduction is applied to the sum received. All members, unless covered by full or partial transitional protection arrangements, automatically became members of the NHS 2015 scheme on 01 April 2015.

Previous NHS Superannuation Schemes (Scotland):

Details of the two NHS Superannuation Schemes previously available to NHS employees are noted below.

The 1995 Section: Benefits are calculated on a ‘final salary’ basis at a normal retirement age of 60. Annual benefits are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions on a tiered basis, dependent on earnings, of between 5.2% and 14.7% of pensionable earnings. Pensions are increased in line with the Consumer Price Index.

The 2008 Section: Benefits are calculated on a “final salary” basis at a normal retirement age of 65. Pension will have an accrual rate of 1/60th and be calculated on the basis of the average of the best consecutive three years pensionable pay in the ten years before retirement. There is an option to exchange part of Pension benefits for a cash lump sum at retirement, up to 25% of overall Pension Value. Members pay tiered contribution rates ranging from 5.2% to 14.7% of pensionable earnings.

Both the 1995 & 2008 schemes closed to new members on 31 March 2015. Accrued benefits in either NHS 1995 or NHS 2008 schemes are protected and will be paid at the section's normal pension age based on final pensionable pay when members leave or retire.

Pension Benefits of Senior Employees

	In-Year Pension Contributions for Period to 31 March 2016* £	Accrued Annual Pension Benefits as at 31 March 2016^ £	Accrued Pension Lump Sum as at 31 March 2016^ £
Chief Officer	1,499	10,640	27,475
Totals			

*Contributions during period 06 February to 31 March 2016 based on 54/366[ths] of total annual contributions (£10,162.99)

^Total pension benefits / lump sum accrued as at 31 March 2016 in both ‘1995’ and ‘2008’ schemes (NB: ‘2008’ scheme no lump sum entitlement – value above relates to ‘1995’ scheme only)

Councillor Catriona Bhatia
Chair

Susan Manion
Chief Officer

On behalf of the Councillors and Officers of Scottish Borders Health and Social Care Partnership

30 September 2016

Statement of Responsibilities

Integration Joint Board

The Integration Joint Board has appointed its Chief Officer. It has also appointed its Chief Financial Officer on an interim secondment basis.

The Integration Joint Board is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Joint Board, 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; and
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Integration Joint Board at its meeting on 17 October 2016.

Signed on behalf of Scottish Borders Health and Social Care Partnership

Councillor Catriona Bhatia
Chair

Chief Officer

The Integration Joint Board has appointed a Chief Officer in accordance with section 10 of the Act.

The Chief Officer is accountable directly to the Integration Joint Board for the preparation, implementation and reporting on the Strategic Commissioning Plan, including overseeing the operational delivery of delegated services.

The Chief Officer is a member of the Parties' relevant Executive / Corporate Management teams and is accountable to and managed by the Chief Executives of both Parties.

The Chief Officer is seconded to the Integration Joint Board from NHS Borders.

Chief Financial Officer

The Chief Financial Officer is and will be seconded at no cost to the IJB from one or other partner organisation. Currently, this post is filled on an interim basis.

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

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

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the Code (in so far as it is compatible with legislation).

The Chief Finance Officer has also:

- kept adequate accounting records which were up to date; and
- 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 Scottish Borders Integration Joint Board at the reporting date and the transactions of the Joint Board for the year ended 31 March 2016.

Paul McMenamin, BA CPFA
Interim Chief Financial Officer

Annual Governance Statement

The Scottish Borders Health & Social Care Integration Scheme was submitted to Scottish Ministers on 17 December 2015 and received Cabinet Secretary approval on 18 December 2015.

An Order to establish the Integration Joint Board was laid in the Scottish Parliament on Friday 8 January 2016 for 28 days. From Saturday 06 February 2016 the Scottish Borders Health & Social Care Integration Joint Board was legally established.

The Integration Joint Board (IJB) is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

Chief Officer

In discharging the responsibilities of the IJB on its behalf, the Chief Officer has a reliance on the NHS and Local Authority's systems of internal control that support compliance with both organisations' policies and promotes achievement of each organisation's aims and objectives, as well as those of the IJB. Additionally, the IJB has through a range of instruments, put in place a system of governance over its operations.

The Chief Officer, Susan Manion, was appointed formally by the IJB on 07 March 2016.

Code of Corporate Governance

As part of the programme of preparing for the integration of health and social care, a Code of Corporate Governance was developed by the Legal and Governance work-stream.

The Partnership's Code of Corporate Governance was approved by the IJB at its meeting of 7 March 2016. The roles and responsibilities of Board members and officers are defined within a comprehensive suite of governance documents relating to the arrangements within which the partnership will operate which specifically covers:

- Scheme of Integration
- Key Principles of the Local Code of Governance
- Standing Orders
- Audit Arrangements including Terms of Reference for the Audit Committee
- Care and Clinical Governance Assurance Framework
- Risk Management Strategy
- Financial Arrangements and Financial Regulations

In addition to its own governance arrangements, the Board places reliance on the governance arrangements adopted by NHS Borders and Scottish Borders Council. Where appropriate existing mechanisms embedded within both NHS Borders and Scottish Borders Council will be used to provide assurance to the Health & Social Care Integration Joint Board to ensure unnecessary double handling of business does not occur.

Integration Joint Board

Services were delegated to the IJB on 01 April 2016. As such, 2015/2016 was a shadow year for the IJB and during this year the governance framework was established. The overarching strategic vision and local objectives of the IJB are detailed in the IJB's Strategic Plan which sets out the key outcomes the IJB is committed to delivering with its partners for the Scottish Borders. The Plan was approved at the meeting of the IJB on the 07 March 2016.

Performance management, monitoring of service delivery and financial governance is provided by the Health and Social Care Partnership to the IJB who are accountable to both the Health Board and the Local Authority. It reviews reports on the effectiveness of the integrated arrangements including the financial management of the integrated budget.

The Strategic Planning Group sets out the IJB's approach to engaging with stakeholders. Consultation on the future vision and activities of the IJB is undertaken with its health service and local authority partners. The IJB publishes information about its performance regularly as part of its public performance reporting.

The IJB's approach to risk management is set out in its risk management strategy, and the Partnership's Strategic and Operational Risk Registers which are in development. Regular reporting on risk management will be undertaken and reported regularly to the Executive Management Team and the IJB.

Audit Arrangements

Prior to the establishment of the IJB, a programme of work was undertaken to evaluate the progress made within the Scottish Borders Health and Social Care Integration (H&SCI) programme in advance of 01 April 2016. This work assessed the position against compliance with the legislative provisions within The Public Bodies (Joint Working) Scotland Act 2014 and the subsequent recommended best practice guidance issued by the Scottish Government / Integrated Resources Advisory Group (IRAG), in terms of the establishment of the arrangements for Financial Governance and Management within NHS Borders, Scottish Borders Council and the Scottish Borders Health and Social Care partnership, specific to the establishment of the Integrated Joint Board (IJB). Following the programme of work, reports were made to the IJB on 07 March 2016, NHS Borders Audit Committee on 01 February 2016 and 04 April 2016 and Scottish Borders Council's Audit Committee on 29 March 2016.

The IJB agreed to establish an Audit Committee as part of the governance arrangements of the Health & Social Care Integration Joint Board on 01 February 2016. On the same date, it approved the Terms of Reference of the IJB Audit Committee. The Audit Committee's core function is to provide the IJB with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance arrangements.

At its meeting of 20 June 2016, the Board agreed the membership of its Audit Committee. At 31 March 2016, the Committee had not yet met.

The Partnership complies with the requirements of the CIPFA Statement on "The Role of the Head of Internal Audit in Public Organisations 2010". The IJB's appointed Chief Internal Auditor has responsibility for the IJB's internal audit function and is professionally qualified and suitably experienced to lead and direct internal audit staff. The Internal Audit service operates in accordance with the CIPFA "Public Sector Internal Audit Standards

2013" as confirmed by self-assessment since 2014 and external peer review quality assessment during 2015 which was reported to Audit and Risk Committee and is stated within internal audit plans and reports. The Board appointed Jill Stacey, Chief Officer Audit and Risk, Scottish Borders Council as Chief Internal Auditor for the Integration Joint Board on 01 February 2016.

The Chief Internal Auditor will, from 2016/17, provide an annual report to the Audit Committee and an independent opinion on the adequacy and effectiveness of the governance framework, risk management and internal control.

Chief Financial Officer

The IJB complies with the CIPFA Statement on "The Role of the Chief Financial Officer in Local Government 2010". The IJB's Chief Finance Officer has overall responsibility for the Partnership's financial arrangements and is professionally qualified and suitably experienced to lead the IJB's finance function and to direct finance staff. The Chief Financial Officer was appointed on a 6-month interim basis by the IJB on 07 March 2016.

Responsibility for maintaining and operating an effective system of internal financial control rests with the Chief Finance Officer. The system of internal financial control is based on a framework of regular management information and financial governance arrangements.

On the 30 March 2016, the Chief Financial Officer made a full report to the IJB containing a Statement of Assurance over the sufficiency of resources prior to approval of the partnership's Financial Statement 2016/17. Supplementary reports were also made as part of the due diligence and assurance process to the IJB on 07 March 2016 and 18 April 2016.

Internal Control

The system of internal control is based on an ongoing process designed to identify, prioritise and manage the risks facing the organisation. The system aims to evaluate the nature and extent of failure to achieve the organisation's policies, aims and objectives and to manage risks efficiently, effectively and economically. As such it can therefore only provide reasonable and not absolute assurance of effectiveness.

Review

The IJB has responsibility for conducting (at least annually) a review of effectiveness of the system of internal control as part of its wider governance arrangements. The partnership's Chief Internal Auditor will facilitate an annual review of its governance arrangements against its Code of Corporate Governance, informed by the work of the Executive Management Team (who have responsibility for the development and maintenance of the internal control framework environment), the work of the internal auditors and the Chief Internal Auditor's annual report, and reports from external auditors and other review agencies and inspectorates.

Councillor Catriona Bhatia	**Susan Manion**
Chair	**Chief Officer**

On behalf of the Councillors and Officers of Scottish Borders Health and Social Care Partnership

30 September 2016

Independent Auditor's Report

Independent Auditor's Report to the members of the Scottish Borders Integration Joint Board and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Scottish Borders Health and Social Care Partnership for the period ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise of the Comprehensive Income and Expenditure Statement, Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the body and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the body as at 31 March 2016 and of the income and expenditure of the body for the then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Hugh Harvie, for and on behalf of KPMG LLP
20 Castle Terrace
Edinburgh
EH1 2EG
29 September 2016

Statement of Accounts

Comprehensive Income and Expenditure Statement (CIES) for the Period Ended 31 March 2016 (06 February 2016 to 31 March 2016)

	Gross Expenditure 2015/16 £'000	Income 2015/16 £'000	Net Expenditure 2015/16 £'000	Notes Ref.
Corporate Services	20	(20)	0	2, 3
Deficit on Provision of Services	**20**	**(20)**	**0**	
Total Comprehensive Income and Expenditure	**20**	**(20)**	**0**	
Other Notes				1

Balance Sheet at 31 March 2016

	Gross Expenditure 2015/16 £'000	Notes Ref.
Short Term Debtors	4	4
Current Assets	**4**	
Short Term Creditors	(4)	5
Current Liabilities	**(4)**	
Net Assets	**0**	
Useable Reserves	0	
Total Reserves	**0**	
Other Notes		6

Paul McMenamin BA, CPFA
Interim Chief Financial Officer

30 September 2016

Notes to the Statement of Accounts

1 – Significant Accounting Policies

1.1 General Principles
The Annual Accounts summarise the Board's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The Board is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 requires these to 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 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Annual Accounts is historical cost.

1.2 Accruals of Income and Expenditure
Activity is accounted for in the year in which it takes place, not simply when cash payments are made or received. In particular:

- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made; and
- where revenue 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 there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Events after the Reporting Period / Balance Sheet Date
Events after the Reporting Period / Balance Sheet Date 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; and
- 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 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. There are no post-balance sheet date events known currently.

1.4 Contingent Liabilities and Contingent Assets
A contingent liability is 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. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. Similarly, a contingent asset arises where an event has taken place that gives the Board a possible asset, but where its existence will only be confirmed by the occurrence of uncertain future events over which the Board does not have full control. Again, these are not recognised in the Balance Sheet but disclosed in a note to the accounts, where there is some probability that there will be an inflow of economic benefit.

There are no probable contingent liabilities or assets known at the Balance Sheet date.

1.5 Reserves
The IJB has the authority to maintain a General Fund Reserve. No reserve existed however at the start or end of the accounting period.

Planned underspends going forward will be returned by the Health Board and Local Authority to the IJB and carried forward through the General Fund. This will require adjustments to the allocations from the IJB to these bodies for the sum of the underspend.

In future, when expenditure is to be financed from the reserve, it will be charged to the appropriate service in that year offsetting the surplus/deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

1.6 VAT
The IJB is a non-taxable entity and therefore neither charges, nor recovers VAT on its functions.

HMRC has issued an Interim Decision on the VAT treatment of the secondment of the Chief Officer to the IJB which states that *"Secondment of the Chief Officer (CO): under Section 10(1) of the Act requires an IJB to appoint a CO; and section 10(3) can be read as meaning that the relevant authority must second that person (or, under section 10(4), employ and then second that person). Therefore, it is recognised that the requirement on the HB/LA to provide a CO is a statutory requirement, so when fulfilling this the HB/LA would be acting under a Special Legal Regime, and therefore the transaction would be an act as a public body, and in acting as such would make the transaction not taxable, and deemed as outside the scope of VAT."*

There are no known VAT implications over the supply of the Chief Officer to the IJB therefore at the current time.

2 – Related Party Transactions

Income - Payment for Integrated Functions	31 March 2016 £'000
NHS Borders	(10)
Scottish Borders Council	(10)
Total Corporate Expenditure	**(20)**

Expenditure - Payment for Delivery of Integrated Functions	31 March 2016 £'000
NHS Borders	10
Scottish Borders Council	10
Total Corporate Expenditure	**20**

The above values are based on a 50/50 cost-sharing arrangement between NHS Borders and Scottish Borders Council in respect of the operating costs incurred by the IJB during the period.

3 – Corporate Expenditure

	31 March 2016 £'000
Staff Costs	16
Audit Fee	4
Total Corporate Expenditure	**20**

4 – Short-Term Debtors

	31 March 2016 £'000
Central Government Bodies	2
Other Local Authorities	2
Total Corporate Expenditure	**4**

5 – Short-Term Creditors

	31 March 2016 £'000
Central Government Bodies	(2)
Other Local Authorities	(2)
Total Corporate Expenditure	**(4)**

6 – Events After the Reporting Period / Balance Sheet Date

The unaudited accounts were issued on 30 June 2016 by Paul McMenamin, BA, CPFA, Interim Chief Finance Officer, who is the proper officer of the IJB in accordance with Section 95 of the Local Government (Scotland) Act 1973. Where events taking place before the balance sheet date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There have been no material events since the date of the balance sheet which necessitate the revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

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SCOTTISH BORDERS HEALTH AND SOCIAL CARE INTEGRATION JOINT BOARD FINANCIAL GOVERNANCE AND MANAGEMENT

Report by the Interim IJB Chief Financial Officer

AUDIT AND RISK COMMITTEE

26 September 2016

1 PURPOSE

1.1 **The purpose of this report is to provide further update of the progress made within the Scottish Borders Health and Social Care Integration (H&SCI) programme in relation to compliance with the legislative provisions within The Public Bodies (Joint Working) Scotland Act 2014 and the subsequent recommended best practice guidance issued by the Scottish Government / Integrated Resources Advisory Group (IRAG).**

1.2 These provisions relate to the establishment of the arrangements for Financial Governance and Management within NHS Borders, Scottish Borders Council and the Scottish Borders Health and Social Care partnership.

2 RECOMMENDATIONS

2.1 **It is recommended that the Audit and Risk Committee:**

(a) **Notes the further progress made to date in the development and implementation of the financial arrangements which require to be in place prior across NHS Borders, Scottish Borders Council and the Health and Social Care Partnership; and**

(b) **Notes the plan of actions for the remaining work requiring completion during the remainder of 2016/17.**

3 BACKGROUND

3.1 Previous reports to the audit committee have identified that specific to the establishment of an integration model within the Scottish Borders – delegation to a (body corporate) Integration Joint Board – there are 69 key financial-related provisions / recommendations within the IRAG guidance that require to be considered.

3.2 An updated summary of progress by the Scottish Borders partnership, with the recommended requirements, is detailed in Appendix 1 to this report.

3.3 This report updates the previous report to the Audit Committee in March 2016.

4 SUMMARY

4.1 The 69 provisions considered cover a range of areas across financial governance and management:

- Governance Structure
- Assurance and Governance
- Financial Reporting
- Financial Planning and Financial Management
- VAT
- Capital and Asset Management
- Accounting Standards

4.2 In undertaking the evaluation and monitoring progress against the provisions, review of progress has been against a "RAG" rating (Red, Yellow, Amber, Green, Grey) applied against each provision. These were defined as:

Actions Complete
Actions Complete, Minor Remaining Actions Profiled
Actions On Track, Actions Planned
Requires Further Action to be Instigated
Does Not Currently Apply – No Actions Currently Required

4.3 At the end of March 2016:

- 32 provisions were assessed as Green
- 11 provisions were assessed as Yellow
- 14 provisions were assessed as Amber
- 4 provisions were assessed as Red
- 8 provisions remained grey as not requiring any action currently

5 UPDATE

5.1 At the time of reporting, 4 provisions were reported as having just been completed. These related to the approval by the IJB on 30 March 2016 of the 2016/17 Financial Statement and the process of due diligence leading to the provision of financial assurance over the sufficiency of resources. These are therefore now green and complete.

5.2 In respect of the remaining 25 provisions, the following updated position is presented in order of those requiring timely action or where no plans / progress was in place / being made.

Review of NHS Borders' and Scottish Borders Council's Financial Regulations and Schemes of Delegation	Materiality / Risk: Med	Provision Refs: 18 59

5.3 Both NHS Borders and Scottish Borders Council have continued to update Financial Regulations during the financial year. Specific to ensuring linkage to and appropriate consideration of the impact of health and social care integration however, a final version requires approval by both partners' board/council. It is expected that this will happen for both organisations in late 2016.

Timescale: 31 December 2016

Internal Audit Arrangements and Audit Plan	Materiality / Risk: High	Provision Refs: 24 25

5.4 The Chief Internal Auditor to the partnership was appointed at the IJB meeting of the 07 March 2016, when the Local Code of Governance was also approved. Audit Committee membership was subsequently agreed at the IJB meeting on 20 June 2016. It is expected that the inaugural meeting of the partnership Audit Committee will take place at the end of September 2016, when a draft Audit Plan for the remainder of 2016/17 will be presented. This will complete the two required actions within the provisions.

Timescale: 30 September 2016

The publication of written Directions from the IJB to NHS Borders and Scottish Borders Council detailing the duties of the IJB and partners and amount of delegated budget/set-aside and how it will be used, a description of services together with any supplementary provisions	Materiality / Risk: Low	*Provision Refs:* 6 37 46 47

5.5 The IJB approved the issue of Directions on 18 April 2016, following which formal written direction was made to each of NHS Borders and Scottish Borders Council. These Directions met each of the required provisions within the guidance and included a list of all directed functions and the amount and method of payment made to fulfil these functions.

Timescale: Complete

Further work is also required in relation to clear identification of the nature, value, source and services supported by current Health Board Resource Transfer which will then require to be accounted for in the method of calculating the Integrated Budget of the IJB. Similarly, further work is also required in relation to hosted services.	Materiality / Risk: Med	Provision Refs: 48 49 50

5.6 Work is ongoing to analyse and agree the basis for and amount of Resource Transfer. Significant detail has been examined during the summer of 2016 and a number of discussions have taken place between partners. This is expected to conclude by agreement shortly. Work on hosted services remains ongoing.

Timescale: 30 September 2016

An integrated Financial Planning process, involving the IJB, within each organisation, which takes account of priorities and results in a negotiated contribution from each partner must further be developed for 2017/18	Materiality / Risk: High	*Provision Refs:* 42 43

5.7 This work will now commence during the Autumn of 2016 as part of the 2017/18 Financial Planning process. This will ensure that the 2017/18 Financial Plan for the partnership is based on the current year budget adjusted incrementally to reflect:

- Partners' absolute level of funding by the Scottish Government
- Past performance and known areas of financial pressure arising due to cost, demand, legislative and other factors
- Efficiencies and other required savings delivery to ensure overall affordability
- New priorities as expressed within partners' plans and the Integration Joint Board's Strategic Plan
- Other emerging areas of financial impact

5.8 In order to enable this, there is clear provision within the partnership's Scheme of Integration (SOI) (8.4.1) in relation to payment to the IJB for delegated functions beyond year 1, whereby the partnership Chief Financial Officer will develop a case for the Integrated Budget based on the Strategic Plan, recognising the financial parameters within which both partners are required to operate within and reflecting such within the Integrated Budget. The SOI also states that both partners, when considering the Strategic Plan, will consider factors such as government financial settlements / funding uplift and required efficiencies and it is only through a process of joint discussion and planning between all partners that the financial plan can be agreed and delivered in support of the partnership's strategic aims and objectives.

Timescale: October 2016 to March 2017

The allocation of resources within the outcomes of the Strategic Plan requires to be developed further	Materiality / Risk: Med	*Provision Refs:* 55

5.9 This is a key piece of work scheduled for the second half of 2016. This will clearly show how component elements of both the delegated and set-aside budgets financially support the delivery of the partnership's strategic plan. It will also provide the baseline position against which future resource shifts can be planned and measured.

5.10 This piece of work also links to the locality planning workstream of the integration programme and specifically will contribute to the development of a financial plan for each of the 5 localities across the Scottish Borders.

Timescale: October 2016 to March 2017

A Financial Strategy will be developed which will cover a number of key areas including forecast funding levels for the Integrated Budget, priority areas for investment and disinvestment and identification of financial risks and an approach to a strategy for building and managing IJB reserve levels	Materiality / Risk: Med	*Provision Refs:* 57

5.11 This work will be undertaken during the remainder of this financial year and reported to the IJB as part of the process of approving its Financial Statement for 2017/18.

Timescale: 31 March 2017

The Integration Joint Board will identify the asset requirements to support the Strategic Plan to enable the Chief Officer to identify capital investment projects, or business cases to submit for consideration as part of each organisation's capital financial planning processes	Materiality / Risk: Med	*Provision Refs:* 68
The Health Board and Local Authority may make use of non-current assets, owned or otherwise, to deliver the services in scope of the Strategic Plan. Arrangements for Capital Financial Planning require to be developed post April 2016	Materiality / Risk: Med	Provision Refs: 13 67

5.12 Capital Planning will be undertaken as part of the integrated approach to the 2017/18 Financial Planning process which is planned to commence in Autumn 2016. The IJB does not receive any capital allocations or grants, nor can it borrow to invest like a local authority. All fixed assets remain owned by NHS Borders and Scottish Borders Council and as such, it is only through accessing partners' capital funding allocations that any capital investment requirements can be met. Where the Chief Officer identifies as part of the Strategic Plan new capital investment requirements, a business case will be developed for the proposal for both partners to consider and local agreement between the partners here in the Scottish Borders as to approval and funding of any proposal will be sought.

Timescale: 31 March 2017

A proposed strategy for Insurance over the activities of the IJB still requires agreement and approval	Materiality / Risk: Med	Provision Refs: 23

5.13 Both partner organisations operate under the same insurance arrangements as previously. Whilst a separate legal entity, it is not anticipated that there will be any significant insurance implications for the partnership, although a review of these arrangements is planned as part of corporate services planning during the remainder of 2016/17.

Timescale: 31 March 2017

Completion of the risk analysis process (for both the IJB and NHSB/SBC – updated risk registers for both the latter organisations) is required and a Risk Register and Risk Management Strategy both require completion	Materiality / Risk: High	Provision Refs: 19 20 22

5.14 The partnership approved its Risk Management Strategy as part of its Code of Corporate Governance in March 2016. Since then, work has been undertaken to develop both Strategic and Operational Risk Registers for the partnership and these are scheduled to be reported to its next meeting on 17 October 2016 for approval and onward management.

Timescale: 17 October 2017

At an operational financial management level, a policy on the application of monthly accrual accounting requires further discussion and agreement	Materiality / Risk: Med	Provision Refs: 54

5.15 Currently NHS Borders operates a monthly accrual policy whilst Scottish Borders Council only accrues outstanding receipts and payments at year-end. It is the aspiration of the partnership to implement a consistent policy of monthly accrual accounting across all delegated and set-aside budgets. Scottish Borders Council are currently considering this option as part of its migration to a new ledger system and its supporting processes within its Digital Transformation agenda, due to go live on 1st April 2017. No decision in respect of this accounting policy has yet been made although functionality is clearly possible and going forward, the partnership's Chief Financial Officer will work with key Finance officers within the authority to ensure that consistency of this fundamental accounting policy requirement is implemented for all health and social care functions.

Timescale: 31 March 2017

Refinement of and quality assurance over large hospitals budget set-aside remains ongoing following and will be incorporated into any revised financial statement	Materiality / Risk: High	*Provision Refs:* 62 64

5.16 From October 2016, monitoring of both the delegated budget and large hospital budget set-aside will be reported to the IJB. Further work developing and interpreting the latter will also take place during the remainder of 2016/17 and incorporated into future years' financial statements.

Timescale: 31 March 2017

The IJB Chief Financial Officer will be appointed on a permanent basis by 31st August 2016	Materiality / Risk: Low	Provision Refs: 4

5.17 The interim arrangement over the appointment of the partnership's Chief Financial Officer is ongoing and will continue to apply until formal permanent recruitment to the post is made during the Autumn of 2016 following agreement between partners over the basis and role of the post.

Timescale: 31 October 2017

5.18 Appendix 2 contains a summary of progress and checklist of remaining actions.

6 OTHER INFORMATION

6.1 At the time of reporting last to the Audit Committee in April, it was stated that at that point in time, it was unclear as to whether statutory reports and financial accounts for the partnership would be required for 2015/16. This was in direct response to the financial provisions within IRAG relating to:

- Statutory Accounts (10, 30, 32)
- Additional Disclosures within Partners' Accounts (11, 31)

6.2 These form 5 of the 8 provisions previously classified as "grey - not requiring any action currently".

6.3 Subsequently to the April report, confirmation was required that accounts relating to the operating costs of the partnership for the period between its establishment on 06 February 2016 and 31 March 2016 would be required. These were completed within the statutory timescale and are currently being audited. The final audited accounts will be reported to the 17 October meeting of the IJB for approval. Both partners included an additional disclosure within the notes to its 2015/16 accounts in relation to the existence and operation of the health and social care partnership.

6.4 At the end of August 2016 therefore:

- 46 provisions are now assessed as Green
- 8 provisions are assessed as Yellow
- 10 provisions are assessed as Amber
- 2 provisions are assessed as Red
- 3 provisions remain grey

7 IMPLICATIONS

7.1 Financial Implications

There are no costs attached to any of the recommendations contained in this report, its content being specifically recommended for noting.

4.2 Risk and Mitigations

No risks have currently been identified.

4.3 Equalities

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

4.4 Acting Sustainably

There are no significant effects on the economy, community or environment.

4.5 Carbon Management

No effect on carbon emissions are anticipated from the recommendation 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 to either the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

5 CONSULTATION

5.1 Scottish Borders Council's Chief Financial Officer and NHS Borders' Director of Finance and their relevant staff have been involved in and agreed the implementation of best practice recommendations.

Approved by

Paul McMenamin
Interim IJG Chief Financial Officer **Signature ....**

Author(s)

Name	Designation and Contact Number
Paul McMenamin	Interim IJB Chief Financial Officer 01835 824000 x5277

Background Papers:
Previous Minute Reference:

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the Author. Information on other language translations as well as additional copies can also be provided.

Contact us at paul.mcmenamin@scotborders.gov.uk

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	Complete	
Scottish Borders Health and Social Care PARTNERSHIP	Complete, Minor Remaining Actions Profiled	NHS Borders / Scottish Borders COUNCIL
	OnTrack, Actions Planned	
	Requires Further Action	
	Does not currently apply	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
1. DELEGATION TO AN IJB						
1.1 INTEGRATION SCHEME AND STRATEGIC PLAN						
1	22/1.1.1	The Integration Scheme sets out the detail of the integration arrangement, as agreed by the Local Authority and Health Board and submitted to Scottish Ministers for approval	Detailed in Final Scheme 151215	None	Received ministerial approval mid-2015 s2-6 set out governance and delivery arrangements, functions delegated and accountability / etc	
2	22/1.1.1	The SOI will cover a number of matters provided for by the legislation and Regulations and for finance related matters these will include: • Functions which are to be delegated to the Integration Joint Board by the Health Board and Local Authority; • The method for the determination of the resources to be made available by the Local Authority and Health Board to the Integration Joint Board for the delegated functions; • Reporting arrangements between the Integration Joint Board, Health Board and Local Authority; and • Financial management arrangements.	SOI appendix 2 and 3 outlines functions delegated Method for determining resource allocationand treatment of variations is detailed in SOI s8.	None	Also covers arrangeements in relation to large hospital budgets set-aside	
3	22/1.1.3	Integration Scheme should also define those services which are not delegated to the Integration Joint Board but are managed by the Chief Officer on behalf on the partner Local Authority and Health Board.	There are no services of this nature managed by the Chief Officer	None	This does not preclude such an arrangement taking place in the future	
1.2 CHIEF OFFICER						

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
4	22/1.2.1	The Integration Joint Board must make arrangements for the proper administration of its financial affairs and appoint an officer with this responsibility, (the Integration Joint Board financial officer)	IJB Chief Financial Officer appointed on an interim basis from 1st March 2016	Permanent appointment will be made during 2016	The Chief Financial Officer will be responsible for developing a number of further governance and operational planning, management and reporting arrangements going forward	
1.3 FINANCIAL MODEL						
5	23/1.3.0.1	The Health Board and Local Authority will delegate functions and make payments to the Integration Joint Board in respect of the delegated functions and the Health Board will also set aside amounts in respect of large hospitals for use by the Integration Joint Board.	This is set out in section 8 of the SOI. Specifically, 8.3/8.4 set out the provisions for making payments to the IJB whilst 8.5 sets out the method for determining the amount set aside for large hospital services.	None	Amount delegated / Set-aside is subject to due dilligence process and assessment of sufficiency of resources when compared to current spend levels and current and future risks	
6	23/1.3.0.1	The Integration Joint Board will produce the Strategic Plan for the use of these resources and give direction and make payment where relevant to the Health Board and Local Authority for delivery of the services in line with the Strategic Plan.	Strategic Plan approved 7th March 2016 Initial Directions issued April 2016			
7	23/1.3.1.1	Resources within the scope will comprise: • The payment made to the Integration Joint Board by the Local Authority for delegated adult social care services (A); • The payment made to the Integration Joint Board by the Health Board for delegated primary and community healthcare services and for those delegated hospital services which will be managed by the Chief Officer (B); and • The amount set aside by the Health Board for delegated services provided in large hospitals for the population of the Integration Joint Board (C).	This is explicitly stated within the SOI 3.3 and sections 8.3-8.5 clearly reflect that this will be the case. Figure 1 P24 graphically reflects this - also detailed within Appendices 2 and 3.	It is intended that a financial statement and assurance report will be approved by the IJB at its extraordinary meeting of 30 March 2016, detailing the amount of resources following within the scope across each of the 3 elements	3 areas of resource (A+B+C) constitute all available resources supporting the delivery of the Strategic Plan, whilst only A+B form part of the delegated budget Rated green in anticipation of IJB approval on 30th March	

Scottish Borders Health and Social Care PARTNERSHIP
Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

NHS Borders

Scottish Borders COUNCIL

SCOTTISH BORDERS INTEGRATED JOINT BOARD

COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
8	24/1.3.1.2	The Integrated Budget comprises of parts (A) and (B).	This is explicitly stated within the SOI 3.3 and sections 8.3-8.5 clearly reflect that this will be the case. Figure 1 P24 graphically reflects this - also detailed within Appendices 2 and 3.	In the report to IJB on 30 March which will propose the resources delegated and due dilligence over them, this should be stated	These are the budget heads over which CO has direct management responsibility	
9	24/1.3.2.1	In addition to the services within scope of the Strategic Plan and managed by the Chief Officer, the Local Authority and Health Board may request that the Chief Officer manage services that are outside of the scope of the Strategic Plan.	Presently, this is not the case within the Scottish Borders. The Chief Officer is only responsible for functions delegated to the IJB. There is scope for this however, within the SOI 1.3.2.1.	None	Is not precluded from future arrangements	
1.4 FINANCIAL GOVERNANCE						
10	25/1.4.1.1	The Integration Joint Board will be required to produce its own statutory accounts as a body under Section 106 of the Local Government (Scotland) Act 1973.	Draft accounts in relation to operating costs prepared for the period 06 February to 31 March 2016.	None	Currently being audited and will be submitted to the IJB in October	
11	25/1.4.1.2	The Local Authority and Health Board will be required to include additional disclosures and group accounts as part of their financial statements which reflect their relationship with the Integration Joint Board.	Noted to the accounts of both partner organisations.	None	15/16 may require to be restated for comparative purposes / or produced for period from IJB establishment date	
12	25/1.4.2.1	The Integration Joint Board must appoint an officer to be responsible for the administration of its financial affairs, referred to in this guidance as the Integration Joint Board financial officer.	4.4b of SOI Scheme P9 explicitly refers to the IJB requiring to appoint a CFO.	None	Interim IJB CFO appointed from 1 March 2016	
13	25/1.4.2.3	The Health Board and Local Authority may make use of non-current assets, owned or otherwise, to deliver the services in scope of the Strategic Plan. Ownership of the assets and the associated liabilities will be unchanged and remain with the partner Local Authority and Health Board.	This will be the case for the Scottish Borders partnership, explicitly defined in 8.7.1.	None	Arrangements for Capital Financial Planning require to be developed and applied during the medium-term planning from 17/18	
14	26/1.4.3.1	The Integration Joint Board should establish a system of risk management arrangements for the functions delegated to it.	This is explicitly defined in section 13 of the SOI.	None		
2. ASSURANCE AND GOVERNANCE						
2.1 FINANCIAL ASSURANCE						

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
15	27/2.1.1	The Health Board accountable officer and the Local Authority Section 95 Officer discharge their responsibility, as it relates to the resources that are delegated to the Integration Joint Board, by setting out in the Integration Scheme - the purpose for which resources are used - and the systems and monitoring arrangements for financial performance management.	Provision within the SOI for the processes through which performance and resources will be managed.	None	Performance Management and Reporting group established in order to deliver rounded financial and performance information and processes to inform integrated decision making from 16/17	
16	27/2.1.3	The Chief Officer is: • Accountable to the Chief Executive of the Health Board for financial management of the operational budget, and is advised by the Health Board Director of Finance; • Accountable to the Section 95 Officer of the Local Authority for financial management of the operational budget; and • Accountable to the Chief Executive of the Local Authority and Chief Executive of the Health Board for the operational performance of the services managed by the Chief Officer.	This is the arrangement proposed for the Scottish Borders partnership, supplemented by the CO's accountability to the IJB for all matters on services and budgets integrated and for which she is responsible. SOI 6.4 explicitly defines accountability to Chief Executives. There is less explicit reference to the COs accountability for matters financial.	None		
17	27/2.1.4	The financial regulations should be developed by its financial officer and incorporate a minimum set of controls. It is recommended that the financial regulations are approved by the Integration Joint Board.	Developed, agreed and reported to the IJB for approval on 01/02/16 following IJB members development session 20/01/16.	None		
18	27/2.1.5	The financial regulations of the Health Board and Local Authority should be revised, if necessary, to incorporate changes resulting from the financial integration arrangements including the arrangements for virement associated with the Integrated Budget.	Still to be completed.	A review of both NHSB and SBC Financial Regulations is required to ensure complementary and consistent governance policy and application.		
2.2 RISK MANAGEMENT						
19	28/2.2.1	The Chief Officer will be responsible for establishing the Integration Joint Board's risk strategy and profile and developing the risk reporting arrangements.	This is explicitly defined in 13.1 of the SOI. Risk Management Strategy approved by IJB March 2016.	None	Risk registers to be reported to the IJB 17 October 2016.	

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
20	28/2.2.2	The participating authorities should identify and manage within their own risk management arrangements any risks they consider to have retained under the integration arrangements.	Complete	Requires to be further reviewed within both NHSB and SBC following establishment of the IJB.		
21	27/2.2.3	The Integration Scheme should consider provisions to address the key risks inherent in integration and include: • Governance, management and strategy; • Financial management; • Asset management; • Information management; • Performance management; and • Customer management.	Arrangements/provisions for control and governance across each of these areas is provided for within the Scheme of Integration, including complaints handling, etc, primarily within sections 10 to 13	None		
22	27/2.2.4	It is also recommended that the provisions for risk management in the Integration Scheme include: • Leadership/lines of accountability; • Arrangements for recording, updating, monitoring and reporting of risk management information; and • Arrangements for accessing professional risk management support.	None of this is explicitly defined in detail within the Scheme of Integration.	A report to the IJB on the Code of Governance including Risk Management arrangements and strategy was made to the IJB on 07 March 2016 with further organic development planned during 2016		
2.3 INSURANCE						
23	29/2.3.1	Integration Joint Boards should make appropriate provision for insurance according to the risk management strategy.		Requires inclusion and finalisation.	Interim insurance options are currently being considered	
24	29/2.4.1	It is the responsibility of the Integration Joint Board to establish adequate and proportionate internal audit arrangements for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources. This will include determining who will provide the internal audit service for the Integration Joint Board and nominating a Chief Internal Auditor.	IJB has approved the appointment of CIA to the IJB. Audit committee will be established. Internal Audit plan to be developed Etc.	Work ongoing.	IJB Audit Committee to meet. Audit Plan to be approved.	

Scottish Borders Health and Social Care PARTNERSHIP

- Complete
- Complete, Minor Remaining Actions Profiled
- OnTrack, Actions Planned
- Requires Further Action
- Does not currently apply

NHS Borders

Scottish Borders COUNCIL

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
25	30/2.4.6	There should be a risk based internal audit plan developed by the Chief Internal Auditor of the Integration Joint Board and approved by the Integration Joint Board or other committee.	Not complete.	To be completed.	As above	
26	30/2.4.7	Internal audit service should be provided by one of the internal audit teams from the Health Board or Local Authority and the Chief Internal Auditor from either of the partner Health Board or Local Authority fulfil this role in the Integration Joint Board.	IJB has approved the appointment of CIA to the IJB. Audit committee will be established. .Audit committee has been approved and established.	Approved February 2016		
27	30/2.4.9	The Integration Joint Board Chief Internal Auditor should report to the Chief Officer and the Integration Joint Board on the annual audit plan, delivery of the plan and recommendations and should provide an annual internal audit report including the audit opinion.	From 2016/17	None		
28	31/2.5.2	The Accounts Commission will appoint the auditors to the Integration Joint Board.	KPMG, Scottish Borders Council's external auditors, have been appointed as auditors to the IJB	None		
29	31/2.6.1	The Integration Joint Board should make appropriate and proportionate arrangements, for consideration of the audit provision and annual financial statements, which are compliant with good practice governance standards in the public sector.	From 2016/17	None		
3. FINANCIAL REPORTING						
3.1 STATUTORY ACCOUNTS						
30	33/3.1.0.1	Audited annual accounts to be prepared with the reporting requirements specified in the relevant legislation and regulations	Draft accounts in relation to operating costs prepared for the period 06 February to 31 March 2016.	None	Currently being audited and will be submitted to the IJB in October	
31	33/3.1.0.2	The Local Authority and Health Board should include additional disclosures in their statutory accounts which reflect their formal relationship with the Integration Joint Board. .	Noted to the accounts of both partner organisations.	None	15/16 may require to be restated for comparative purposes / or produced for period from IJB establishment date	

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

SCOTTISH BORDERS INTEGRATED JOINT BOARD

COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
32	34/3.1.1.4	The Integration Joint Board financial statements must be completed to meet the audit and publication timetable specified in regulations	Draft accounts in relation to operating costs prepared for the period 06 February to 31 March 2016 - submitted to External Audit by 30 June statutory timescale.	None	Currently being audited and will be submitted to the IJB in October	
Further work will be undertaken during 2016/17 to ensure full compliance with IRAG in relation to Financial Reporting						
4. FINANCIAL MANAGEMENT						
4.1 RESOURCES WITHIN THE SCOPE OF THE STRATEGIC PLAN						
33	38/4.1.1	The legislation requires that the Integration Joint Board produce a Strategic Plan, which sets out the services for their population over the medium term (3 years)	Approved. Complete.			
34	38/4.1.2	The Strategic Plan should incorporate a medium term financial plan (3 years) for the resources within scope of the Strategic Plan which will comprise: • the Integrated Budget, i.e. the sum of the payments to the Integration Joint Board (see 4.2); plus • the notional budget, ie the amount set aside by the Health Board, for large hospital services used by the Integration Joint Board population (see 4.4).	This is not explicitly within the Strategic Plan although the services to be integrated are defined in Appendix A. These resources within scope will be formally defined within the 2016/17 Financial Statement which will be approved by the IJB in March 2016 and which will support the delivery of the Strategic Plan. This will also include large hospital set-aside notional budget. Formal Written Directions, including the value of specific integrated budget, will also be issued by the IJB to its partners	Complete		
35	38/4.1.4	The relative proportions of partners' contributions to the resources within scope of the plan will not influence the proportion of services that will be directed by The Integration Joint Board through the Strategic Plan, although it is likely that in the first years they will be similar.	This is not specifically referred to within either the SOI or the Strategic Plan but has been a working principle of the financial planning work to date as proposed at a member development session in 2015.			
4.2 THE INTEGRATED BUDGET						
36	39/4.2.1	The legislation requires that Health Boards and Local Authorities make payments to the integration joint board for the delegated functions and that the method for determining the value of the payments is included in the Integration Scheme	8.3.1 of the SOI states that "the baseline payment will be established by reviewing recent past performance and existing plans for NHSB and SBC for the functions delegated adjusted for material items" and 8.1-8.2 provides for the mechanism of value determination.	None		

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
37	39/4.2.2	The legislation also requires that where the Integration Joint Board gives direction for the partner Local Authority and Health Board for the operational delivery of services, that the value of the payment or the method of agreeing the value of the payment be included in the direction	Directions issued April 2016			
38	39/4.2.3	Integration authorities should undertake a shadow period in 2014-15. The allocations in the shadow period should be based on the existing financial plans of the Local Authority and Health Board including the planned efficiencies and consideration of recent financial outturn and trends in expenditure; this process must be transparent and the assumptions underlying the budgets must be available to all partners.	Shadow period commenced 1st April 2016 - aligned budgets reflected approved 2015/16 Financial Plans for both NHSB and SBC, including planned efficiencies, savings/income proposals and service pressures/growth. Financial Plans between both partners shared and published.	None		
39	39/4.2.4	The financial performance of the Integrated Budget is monitored during the shadow period with full transparency so that all partners have a clear understanding of the cause and type (recurrent/non-recurrent) of variances and the remedial actions taken by the Local Authority and Health Board. They should have a clear understanding of the adequacy of the budgets in the financial plan for the following year and the assumptions on which they are based.	Monthly aligned financial monitoring reports by exception to Programme Implementation Board / Executive Management Team, with a full quarterly report to IJB detailing current and projected position to date and key areas of pressure/savings variances with detailed explanation where required, including proposed remedial action across integrated and non-integrated budget heads. Financial Plan process paper to be developed for IJB.	Complete	Regular and frequent monitoring reports to IJB	

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
40	39/4.2.5	The initial payments to the Integration Joint Board should be based on analysis of the shadow period in 2014-15 to provide the Local Authority, Health Board and Integration Joint Board with reassurance that the delegated resources are sufficient to deliver the delegated functions. It should also consider the respective financial plans of the Local Authority and Health Board including full transparency on the budget assumptions and planned efficiency savings. These allocations should be tested against the actual performance in the shadow period and adjusted if necessary. Although not included in the payment, the analysis in the shadow period should include the notional budget for hospital services.	This is the approach and takes account of both organisations existing financial plans. Assurance over the sufficiency of resources has been undertaken and key risks identified. Both organisations are experiencing significant pressures presently on functions which will be delegated - full assurance / risk assessment has been undertaken allowing a view over the resources and demands on them to be formed.	Complete		Complete
41	40/4.2.7	The method for determining the allocations to the Integrated Budget in subsequent years will be contingent on the respective financial planning and budget setting processes of the Local Authority and Health Board. They should aim to be able to give indicative three year allocations to the integration joint board, subject to annual approval through the respective budget setting processes.	Section 8.4 of the SOI clearly lays out the detailed method through which payment in subsequent years to the IJB for delegated functions will be made. Reference is also made to the IJB agreeing and delivering the Strategic Plan/Financial Plan but through a process of joint discussion and planning with partners.	None presently	Integrated Financial Planning process to be developed for 17/18 onwards	Complete
42	40/4.2.8	The Chief Officer, and the Integration Joint Board financial officer where such is appointed separately, should develop a case for the Integrated Budget based on the Strategic Plan and present it to the Local Authority and Health Board for consideration and agreement as part of the annual budget setting process.	This hasn't been the case for 2016/17 budget directly. Will require to be the case for 2017/18 however. In the interim, the CO also acts as manager of services within both organisations and is therefore part of the management team and financial planning process within each respective partner's organisation.		2017/18 Financial Planning process	OnTrack, Actions Planned

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

SCOTTISH BORDERS INTEGRATED JOINT BOARD

COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
43	40/4.2.9	Local Authority and Health Board will evaluate the case for the Integrated Budget against their other priorities and are expected to negotiate their respective contributions accordingly. The allocations will be a negotiated process based on priority and need and it should not be assumed that they will be the same as the historic or national allocations to the Health Board and Local Authority.	Whilst little reference has been made to specifically 'integrated' services as part of NHSB's/SBC's financial planning process for 2016/17, budgets, pressures and requirement for proposed savings have been recognised as part of a prioritisation process. This has the impact of increasing/decreasing certain budgets supporting integrated services.		A clearer approach to prioritisation of integrated services' budgets as part of a wider approach to financial planning in partner organisations will require development for 2017/18.	
44	40/4.2.9	The method for determining the contributions is required to be included in the Integration Scheme.	SOI 8.3-8.5	Complete		
45	41/4.2.10	The allocations made from the Integration Joint Board to the Local Authority and Health Board for operational delivery of services will be approved by the Integration Joint Board. The value of the payments will be those set out in the Strategic Plan approved by the Integration Joint Board	Report to IJB in March 2016, accompanied by Financial Statement.	Complete		
46	41/4.2.11	The legislation will require that a direction should be in writing and must include information on (Section 26): • The integrated function/(s) that are being directed and how they are to be delivered; and • The amount of and method of determining the payment to carry out the delegated functions.	Complete			
47	41/4.2.12	It anticipated that a direction from the Integration Joint Board will take the form of a letter from the Chief Officer to the Health Board or Local Authority referring to the arrangements for delivery set out in the Strategic Plan and/or other documentation. Once issued they can be amended or varied by a subsequent direction	Complete			

Scottish Borders Health and Social Care PARTNERSHIP

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

NHS Borders

Scottish Borders COUNCIL

SCOTTISH BORDERS INTEGRATED JOINT BOARD

COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
48	41/4.2.14	Some social work expenditure budgets will be funded by resource transfer payments. It is recommended that partners identify these and adopt a transparent and consistent approach to their inclusion in the payment to the Integration Joint Board. The options for this are: • For the Health Board to stop paying resource transfer to the Local Authority and instead to include it in its payment to the Integration Joint Board. The Local Authority would need to make a corresponding reduction in its payment to the Integration Joint Board to cover the loss of resource transfer income from the Health Board; or • For the Health Board to continue paying resource transfer to the Local Authority and to exclude it from its payment to the Integration Joint Board. The Local Authority would include in its	Work is ongoing in this area analysing out the level of resource transfer, its basis and its current application.	Ongoing		
49	41/4.2.15	It is recommended that the local decision on treatment of resource transfer be set out in the Integration Scheme.	Resource transfer is not referred to within the SOI. This will therefore require local agreement and may require reporting to IJB.	Further work and agreement required		
50	42/4.2.17	Resources used by the population of an Integration Joint Board for delegated services that are provided on a hosted arrangement, should be included in the respective Integrated Budget	Further work required	Further work required		
4.3 MANAGING FINANCIAL PERFORMANCE						
51	42/4.3.0.1	The partners should include in the Integration Scheme provisions for managing in-year financial performance of the Integrated Budget. This will require that the Chief Officer receive financial performance information for both her/his operational role in the Health Board and Local Authority and strategic role in the Integration Joint Board.	SOI 8.6 outlines how any in-year variations will be addressed. Within the Shadow Year, the CO receives financial performance information for both her operational role in the Health Board and Local Authority and strategic role in the Integration Joint Board.	None	Single entity reporting still in development	

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

Scottish Borders Health and Social Care PARTNERSHIP

NHS Borders

Scottish Borders COUNCIL

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
52	42/4.3.0.2	It is recommended that the Health Board and Local Authority Directors of Finance and the Integration Joint Board financial officer establish a process of regular in-year reporting and forecasting to provide the Chief Officer with management accounts for both arms of the operational budget and for the Integration Joint Board as a whole.	A monthly management report is presented to the CO for discussion and approval covering all functions delegated. This is also reported to her management team on a monthly basis where detailed discussion and (if required) remedial actions are planned and approved.	None	Single entity reporting still in development	
53	42/4.3.0.2	It is also recommended that a joint appointment from the senior finance teams of the Health Board and Local Authority provide the Chief Officer with financial advice for the respective operational budgets. This would allow for the same person carry out both this role and the role of financial officer for the joint board, but this is a matter for local determination.	Interim CFO appointment from 1 March 2016			
54	42/4.3.0.3	It is recommended that the Health Board and Local Authority agree a consistent basis for the preparation of management accounts, i.e. accruals vs. cash basis; this is a matter for local decision.	This is a matter for further discussion. Whilst an accruals basis is consistently applied for statutory reporting, there is inconsistency between the partners in terms of monthly accrual accounting for management reporting purposes.	Ongoing work package		
55	43/4.3.0.4	Integration Joint Board will allocate the resources it receives from the partner Health Board and Local Authority in line with the Strategic Plan; in doing this it will be able to use its power to hold reserves	This will be undertaken as part of the work developing the approach to Strategic and Operational Financial Planning during 2016/17			
56	43/4.3.0.5	In her/his operational role, the Chief Officer will manage the respective operational budgets so as to deliver the agreed outcomes within the operational budget viewed as a whole. The Chief Officer will be responsible for the management of in-year pressures and will be expected to take remedial action to mitigate any net variances and deliver the planned outturn	This is currently happening to a degree. The CO takes full responsibility for the management of in-year pressures during 2015/16. Whilst in shadow year and budgets only as aligned presently, the operational budget is not viewed as a whole for the purposes of such remedial action however.	None		

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
57	43/4.3.0.7	It is recommended that the Integration Joint Board has a reserves policy and reserves strategy, which include the level of reserves required and their purpose. This should be agreed as part of annual budget setting and reflected in the Strategic Plan agreed by the Integration Joint Board.	This has yet to be developed and be approved during 2016/17 in preparation for 2017/18 financial planning process.	CFO will develop and seek agreement from CO/IJB and respective partners	Will form part of IJB Financial Strategy	(orange)
58	43/4.3.0.9	The Chief Officer will not be able to vire between the operational Integrated Budget and those budgets that are managed by the Chief Officer, but are outside of the scope of the Strategic Plan, unless agreed by the partner Local Authority and Health Board.	The arrangements for this are defined in s8.6 of the SOI	None	Specifically stated in 8.6.4 - 8.6.6 of SOI	(green)
59	43/4.3.0.9	The arrangements for the virement of budgets should be specified in the scheme of delegation within the partner authorities.	Outstanding - partners' Financial Regulations require review and if appropriate, updating	Schemes of administration in NHSB and SBC require review and update accordingly.		(yellow)
60	44/4.3.1.1	The Integration Scheme should include provisions for the treatment of in-year under and overspends.	s8.6 of SOI clearly defines these provisions	None		(green)
61	44/4.3.1.5	In-year underspends on either arm of the operational integrated budget should be returned from the Local Authority and Health Board to the Integration Joint Board and carried forward through the general fund.	8.6.8 of the SOI states "Any unplanned underspend will be returned to Borders Health Board or Scottish Borders Council by the Integration Joint Board either in the proportion that individual pressures have been funded or based on which service the savings are related to. " 8.6.7 states "Where there is a planned underspend in operational budgets arising from specific action by the Integration Joint Board it will be retained by the Integration Joint Board. This underspend may be used to fund additional capacity in-year or, with agreement with the partner organisations, carried forward to fund capacity in subsequent years. . The carry forward will be held in an ear-marked balance within Scottish Borders Council's general reserve."	None	Treatment of planned overspends defined in SOI 8.6.7, unplanned overspends in 8.6.8	(green)

4.4 NOTIONAL BUDGET FOR DIRECTED HOSPITAL SERVICES

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

SCOTTISH BORDERS INTEGRATED JOINT BOARD
COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
62	46/4.4.0.3	Legislation requires that the method for determining the amount to be set aside by the Health Board should be included in the Integration Scheme	This is defined in s8.5 of the SOI, specifically referencing IRF. Currently, further work to develop IRF by partner organisations is required before this can inform fully the calculation - resources have been identified on a 'direct-only' basis in the interim			
63	.	Where material; the notional budget should include the resources for the in scope hospital services used by the partnership population in all Health Boards.	Not relevant within Scottish Borders			
64	46/4.4.1.4	It is recommended that partners should establish a process for the Chief Officer and the hospital sector to jointly monitor in year actual demand against plan and provide for virements, if required, based on practical thresholds.	t.b.a.	t.b.a.		
5. VAT						
5.1 REVENUE						
5.2 CAPITAL						
65	50/5.2.1	In the short term the Integration Joint Board will not be empowered to own capital assets and the VAT regimes of the Local Authority and Health Board will apply to capital assets used to provide the delegated services.	8.7.1 of SOI states "The Integration Joint Board will not own any capital assets but will have use of such assets which will continue to be owned by Borders Health Board and Scottish Borders Council who will have access to sources of funding for capital expenditure". The SOI does not refer to VAT regimes, however, following national recommended practice (HSCI Finance Leads recommendations, existing partners' VAT regimes will apply.	None	VAT approach should be simple and pragmatic - watching brief presently to ensure all decisions proposed and implemented are VAT neutral	
6. CAPITAL AND ASSET MANAGEMENT						
6.1 ASSET MANAGEMENT						

Complete
Complete, Minor Remaining Actions Profiled
OnTrack, Actions Planned
Requires Further Action
Does not currently apply

Scottish Borders Health and Social Care PARTNERSHIP — NHS Borders — Scottish Borders COUNCIL

SCOTTISH BORDERS INTEGRATED JOINT BOARD

COMPLIANCE CHECK WITH INTEGRATED RESOURCES ADVISORY GROUP GUIDANCE

ACTION POINT	IRAG REFERENCE	IRAG PROVISION	PROGRESS	ACTIONS REQUIRED	COMMENTS /	STATUS>
66	51/6.1.1	The Integration Joint Board should identify the asset requirements to support the Strategic Plan. This will enable the Chief Officer to identify capital investment projects, or business cases to submit to the Health Board and Local Authority for consideration as part of the capital planning processes, recognising that partnership discussion would be required at an early stage if a project was jointly funded.	SOI 8.7.2 states "The Chief Officer will consult with Borders Health Board and Scottish Borders Council to identify need for asset improvement owned by either party and where investment is identified, will submit a business case to the appropriate party which will be considered as part of each party's existing capital planning and asset management arrangements." Following the IRAG guidance therefore, a formal process will be in place to consider IJB capital requirements as part of both organisations' wider capital planning process".	None		
67	51/6.1.3	The Integration Joint Board, Health Board and Local Authority are recommended to undertake due diligence to identify all non-current assets which will be used in the delivery of the Strategic Plan.	This is not stipulated in SOI, nor has any work been undertaken to identify fixed assets specifically.	An audit of all fixed assets supporting the functions delegated will be require undertaking and a report to the IJB, linking them to the delivery of the Strategic Plan will be made during 2016/17	2016/17	
6.2 CAPITAL FUNDING						
68	52/6.2.1	The Integration Joint Board will not receive any capital allocations, grants or have the power to borrow to invest in capital expenditure. The Health Board and Local Authority will continue to own any property and assets used by the Integration Joint Board and have access to sources of funding for capital expenditure.	SOI s8.7.1 states that "In line with guidance, the Integration Joint Board will not receive any capital allocations, grants or have the power to borrow to invest in capital expenditure." Asset ownership will be retained by each partner and a formal process for accessing sources of capital funding from either organisation will be develoepd".	Capital Planning process		
6.3 R&M						
69	53/6.3.1	The Integrated Budget may include payments from the Local Authority and Health Board to cover the revenue costs of assets e.g. rents, repairs and maintenance, rates, cleaning, property insurance etc.	Locally, we have decided not to include property repairs, maintenance and servicing within the Integrated Budget and both partners' will retain the responsibility for this function.	None		

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IRAG-SPECIFIC PROGRESS SINCE APRIL

- ✓ Production and agreement of 3-year (Yr 1 plus Yrs 2/3 indicative) IJB Financial Statement
- ✓ Reports to IJB on Assurance over the Sufficiency of Resources and Due Diligence
- ✓ Issue of Directions stating functions commissioned and supporting resources
- ✓ Production of 2015/16 IJB Statutory Accounts
- ✓ Additional Disclosures within 2015/16 NHS Borders and Scottish Borders Council Statutory Accounts

OUTSTANDING IRAG PROVISIONS

✗	Approval of Risk Register in line with approved Risk Management Strategy	30-Sep-16
✗	Finalisation and agreement of Resource Transfer and Hosted Services values	30-Sep-16
✗	Audit Committee Meetings and Approval of Internal Audit Plan	30-Sep-16
✗	Permanent appointment to IJB CFO post	31-Oct-17
✗	Review and update of NHSB and SBC Financial Regulations	31-Dec-16
✗	Fixed Asset Management / Capital Planning Processes	31-Mar-17
✗	2017/18 - An integrated Financial Planning process between the IJB and its partners	31-Mar-17
✗	Fully costed Strategic and Locality Plans in terms of allocation of resources across aims, objectives and communities	31-Mar-17
✗	Review of Insurance Arrangements for IJB	31-Mar-17
✗	Agreed monthy accruals policy between partners	31-Mar-17
✗	Review and agreement of large hospitals budget set-aside	31-Mar-17

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ANNUAL TREASURY MANAGEMENT REPORT 2015/16

Report by Chief Financial Officer

AUDIT & RISK COMMITTEE

26 September 2016

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to present the annual report of treasury management activities undertaken during the 2015/16 financial year to the Audit & Risk Committee for review as part of their scrutiny role in relation to treasury management activities in the Council.**

1.2 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) requires an annual report on treasury management to be submitted to Council following the end of each financial year. This report highlights the Council's treasury activity in the year ended 31 March 2016 and the performance of the Treasury function.

1.3 Appendix 1 is the annual report of treasury management activities for 2015/16 and contains an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. All of the performance comparisons reported upon are based on the revised indicators agreed as part of the mid-year report approved on 17 December 2015.

1.4 The Appendix shows the Council's borrowing requirement to fund capital investment undertaken during 2015/16, how much the council actually borrowed against the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits.

1.5 During the year the Council has, where possible, deferred borrowing using surplus cash rather than undertaking new borrowing. The Council therefore did not undertake additional long term borrowing during the year.

1.6 Treasury management activity for the year has been undertaken in compliance with approved policy and the Code and the Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2016.

2 RECOMMENDATIONS

2.1 **It is recommended that the Audit and Risk Committee:**

(a) notes that treasury management activity in the year to 31 March 2016 was carried out in compliance with the approved Treasury Management Strategy and Policy; and

(b) agrees to the presentation of the Annual Treasury Management Report 2015/16 (Appendix 1) to Council.

3 BACKGROUND

3.1 The Council approved the Treasury Management Strategy (the Strategy) 2015/16 at the Council meeting on 12 February 2015. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

3.2 The Council received a mid-year report on 17 December 2015 and approved the revised Prudential and Treasury Management Indicators for 2015/16 following the updating of assumptions, in particular capital expenditure estimates.

3.3 As set out in the Strategies, the Audit and Risk Committee has a role to scrutinise the Annual and Mid-Year Reports before submission to Council for final approval.

4 ANNUAL TREASURY MANAGEMENT REPORT TO 31 MARCH 2016

4.1 The Annual Treasury Management Report for 2015/16 is shown in Appendix 1.

4.2 Appendix 1 shows the Council's borrowing requirement to fund capital investment undertaken during 2015/16, how much the Council actually borrowed against the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits.

4.3 In addition, Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators. All of the 2015/16 target indicators reported upon are based on the revised indicators agreed as part of the mid-year report on 17 December 2015.

4.4 The key Prudential Indicators (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year to 31 March 2016, with comparators, are as follows:

	2015/16 Actual £m	**2015/16 Estimate £m**	**Variance £m**
Actual Capital Expenditure *(PI-1)*	**45.0**	**50.7**	**(5.7)**
Total Capital Financing Requirement (CFR) *(PI-2)***	**258.0**	**266.6**	**(8.6)**
(Under)/Over Gross Borrowing Magainst the CFR *(PI-6)* ***	**(56.6)**	**(57.2)**	**(0.6)**
Investments (all under 1 year)	**19.4**	**16.6**	**(2.8)**

**Revised estimate, approved by Council 17 December 2015 as part of the mid-year report*
*** The CFR for this calculation is based on expenditure to 31 March 2016 only*
**** The CFR for this calculation includes the current year and projected movement for the next two subsequent years.*

(a) **PI-2 Total Capital Financing Requirement**

The reason for the decrease in the level of under-borrowing, compared to that projected, is that the Council had sufficient positive cash-flow to fund capital expenditure without borrowing. In addition, the actual level of capital expenditure for 2015/16 was less than the projected value in the mid-year report. The decision not to borrow at this point was driven by the following considerations:

(i) There remains a significant differential between borrowing and investment rates, which results in a higher percentage cost of carrying borrowed financing that is sitting as surplus cashflow.

(ii) During 2015/16 the Council retained sufficient cash flow to meet its outgoing capital requirements.

(iii) The number of counterparties meeting the Council's investment strategy criteria remains low.

(iv) The extension of the forecasts on low interest rates means that the long term interest rate position was not expected to change significantly in the next 12 months.

(b) **PI-6 (Under)/Over Gross Borrowing against the CFR**

The under-borrowing position decreased due to the reasons set out in para 4.3(b) above.

(c) **Investments**

The increase in the levels of investments was related to better than anticipated cashflow.

4.5 Treasury management activity for the year has been undertaken in compliance with the approved policy and the Code and the Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2016

5 IMPLICATIONS

5.1 Financial

There are no further financial implications relating to this report. The outcomes, including financial, from the Council's treasury management activities are explained in detail within Appendix 1.

5.2 Risk and Mitigations

This report is an account of the outcomes from the tightly controlled risk management work that the Council's Treasury staff have carried out. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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 to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Service Director Regulatory Services as 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 and their comments have been incorporated into the final report, or will be made available at the meeting.

Approved by

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

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Capital & Investment Manager, 01835 825249

Background Papers:
Previous Minute Reference: Scottish Borders Council 17 December 2015

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

Contact us at Capital and Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825249 Fax 01835 824000. email: treasuryteam@scotborders.gov.uk

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APPENDIX 1

SCOTTISH BORDERS COUNCIL

ANNUAL TREASURY MANAGEMENT REPORT YEAR TO 31 MARCH 2016

CONTENTS

1. EXECUTIVE SUMMARY

1.1 This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

This paper highlights activity in relation to the treasury management function during 2015/16, the Council's strategy with regard to interest rates and future expectations and how the capital expenditure incurred by the Council in 2015/16 was funded. The investment strategy for 2015/16 is summarised in Section 5 and Members are provided with details of how well the treasury function has performed in relation to a set of standard performance indicators.

1.2 During 2015/16, the Council complied with its legislative and regulatory requirements.

1.3 Key Prudential (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Table 1	**2015/16 Actual £m**	**2015/16 Estimate £m**	**Variance £m**
Actual Capital Expenditure *(PI-1)*	**45.0**	**50.7**	**(5.7)**
Total Capital Financing Requirement (CFR) ** *(PI-2)*	**258.0**	**266.6**	**(8.6)**
(Under)/Over Gross Borrowing against the CFR *(PI-6)* ***	**(56.6)**	**(57.2)**	**(0.6)**

** Revised estimate, approved by Council on 17 December 2015 as part of the mid-year report*
*** The CFR for this calculation includes current capital expenditure to 31 March 2015*
**** The CFR for this calculation includes the current and two future years projected capital expenditure.*

1.4 No additional long term borrowing for a capital purpose was undertaken during 2015/16 and the statutory borrowing limit (the authorised limit) was not breached.

1.5 The economic environment during the 2015/16 financial year continued to remain challenging, with low investment returns.

2. COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2015/16

2.1 CAPITAL EXPENDITURE *(Prudential Indicator 1)*

a) The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need, or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

b) The actual capital expenditure forms one of the required prudential indicators. **Table 2** below summarises the final out-turn position compared with the estimate reported to Council in the mid-year report.

Table 2	**2015/16 Actual £m**	**2015/16 Estimate £m**	**Variance £m**
Place	33.7	33.5	0.2
People	7.1	11.9	(4.8)
Chief Executive	4.2	5.3	(1.1)
Total Capital Expenditure *(PI-1)*	**45.0**	**50.7**	**(5.7)**

c) The final capital expenditure for 2015/16 was lower than projected as a result of delays in expenditure on a number of projects, including School and Social Care infrastructure, specifically relating to Kelso High School (£973k), Duns Primary School (£1,154k), and Residential Care Homes (£756k). Delays in expenditure in Road and Bridge schemes (£454k) and Waste Management Infrastructure (£411k) also contributed to this variance.

The specific drivers for each of the movements have been disclosed in the regular monitoring reports to the Executive throughout 2015/16 and in the out-turn report presented in 7 June 2016.

2.2 FINANCING THE CAPITAL PROGRAMME

a) Capital Expenditure may either be financed:

(i) Immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which does not impact on the Council's borrowing need, or

(ii) If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

b) **Table 3** below summarises the main funding elements of the 2015/16 capital expenditure.

Table 3	**2015/16 Actual £m**	**2015/16 Estimate £m**	**Variance £m**
Capital Expenditure	45.0	50.7	(5.7)
Other Relevant Expenditure *	1.4	1.0	0.4
Total Expenditure	**46.4**	**51.7**	**(5.3)**
Financed by:			
Capital Grants & Other Contributions	29.0	30.1	(1.1)
SBC Revenue Funding	1.0	0.0	1.0
Capital Fund/Capital Receipts	1.5	1.7	(0.2)
Plant & Vehicle Fund	2.5	2.5	0.0
Total identified finance	**34.0**	**34.3**	**(0.3)**
Net Financing Need for the Year	**12.4**	**17.4**	**(5.0)**

** This consists of net lending to the National Housing Trust (NHT) during 2015/16 of £1.357m.*

The decrease in unfinanced capital expenditure compared with the estimate in the mid-year report resulted principally from timing movements as detailed in paragraph 2.1 c).

2.3 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT *(Prudential Indicators 2 and 5)*

a) The Council's underlying need to borrow for capital expenditure is termed the **Capital Financing Requirement (CFR)** and is a key prudential indicator. The CFR results from the capital activity of the Council and the resources that have been used to pay for the capital spend. It represents the 2015/16 unfinanced capital expenditure (see **Table 3** in section 2.2 (b)), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

b) Depending on the capital expenditure programme, the treasury function organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Public Works Loan Board or the money markets, or utilising cash resources within the Council.

c) **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the scheduled debt amortisation for loans repayment, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the scheduled debt amortisation for loans repayment.

The Council's borrowing activity is constrained by prudential indicators, including those comparing gross borrowing, the CFR and the authorised limit.

d) The extent to which the Council is under/over borrowed at 31 March 2016 is calculated by comparing actual external debt against the CFR and is shown in **Table 4** below. It includes "Other long term liabilities", such as PFI and leasing schemes on the balance sheet. These increase the Council's borrowing need, however, as no borrowing is actually required against these schemes, these amounts have been deducted in **Table 4**.

Table 4	**31 March 2016 Actual £m**	**31 March 2016 Estimate £m**	**Variance £m**
CFR *(PI-2)**	**258.0**	**266.6**	**(8.6)**
Less: Other long term liabilities **	54.7	54.3	0.4
Underlying borrowing requirement	**203.3**	**212.3**	**(9.0)**
External Borrowing at 31/3/16	170.8	171.6	(0.8)
(Under)/Over borrowing	**(32.5)**	**(40.7)**	**(8.2)**

**The CFR for this calculation includes current capital expenditure to 31 March 2016*
***PPP/PFI/Finance Lease balances*

e) The reason for the decrease in the level of under-borrowing, compared to that projected, is that the Council had sufficient positive cash-flow to fund expenditure without borrowing. In addition, the actual level of capital expenditure for 2015/16 was less than the projected value in the mid-year report. The decision not to borrow at this point was driven by the following considerations:

(i) There remains a significant differential between borrowing and investment rates, which results in a higher percentage cost of carrying borrowed financing that is sitting as surplus cashflow.

(ii) During 2015/16 the Council retained sufficient cash flow to meet its outgoing capital requirements.

(iii) The number of counterparties meeting the Council's investment strategy criteria remains low.

(iv) The extension of the forecasts on low interest rates means that the long term interest rate position was not expected to change significantly in the next 12 months.

3 TREASURY MANAGEMENT ACTIVITY

3.1 GROSS BORROWING AND THE CFR *(Prudential Indicator 6)*

a) In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 5	**31 March 2016 Actual £m**	**31 March 2016 Estimate £m**	**Variance £m**
Fixed rate funding			
PWLB	127.6	127.6	-
Market	-	-	-
Variable rate funding			
Market *	43.2	44.0	0.8
External Borrowing	**170.8**	**171.6**	**0.8**
Other long term liabilities **	54.7	54.3	(0.4)
Total Debt	**225.5**	**226.0**	**0.5**
CFR (inc. next 2 year estimates)	282.1	283.2	1.1
(Under)/Over Gross Borrowing against the CFR *(PI-6)*	**(56.6)**	**(57.2)**	**(0.6)**

* *LOBO loans (where a rate change could be instigated by the lender at certain intervals)*
** *PPP/PFI/Finance Lease balances*

b) Council deposits were made on a short term basis throughout 2015/16.

c) There was no rescheduling of debt during 2015/16. The low rates of interest available on investments favoured the use of cash and other sources of finance rather than increased borrowing.

3.2 OPERATIONAL BOUNDARY AND AUTHORISED LIMIT *(Prudential Indicators 7 and 8)*

a) The **Operational Boundary** and the **Authorised Limit** are indicators which are intended to act as limits to the overall level of borrowing activity. The Authorised Limit represents the maximum limit beyond which borrowing is prohibited. The Operational Boundary represents the level of external borrowing that the Council is expected to operate within. **Table 6** compares the External Debt position with these indicators and demonstrates that the Council has not breached either limit during 2015/16.

Table 6	**31 March 2016 Actual £m**	**Authorised Limit** *(PI-8)* **£m**	**Variance £m**	**Operational Boundary** *(PI-7)* **£m**	**Variance £m**
Total Gross Borrowing	**225.5**	**319.1**	**(93.6)**	**270.4**	**(44.9)**

3.3 MATURITY PROFILE OF EXTERNAL DEBT

a) **Table 7** presents an analysis the maturity structure of the Council's external debt portfolio.

Table 7	**31 March 2015 £m**
Under 12 months	-
12 months and within 5 years	0.7
5 years and within 10 years	13.2
Over 10 years	156.9
Total	**170.8**

4. INTEREST RATE MOVEMENTS AND EXPECTATIONS

4.1 TREASURY STRATEGY FOR 2015/16

a) The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

b) The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back.

c) The comparison of the annual *average* percentage interest rates to projections within the 2015/16 strategy is set out in **Table 8** below.

Table 8	**Bank Rate**	**PWLB Rates %**		
	%	**5 year**	**25 year**	**50 year**
2015/16 Estimate	0.5	2.6	4.0	4.0
2015/16 Actual	0.5	2.3	3.6	3.4
Variance	**-**	***0.3***	***0.4***	***0.6***

4.2 THE ECONOMY AND INTEREST RATES – 2015/16

a) Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

b) These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

c) The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

d) The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

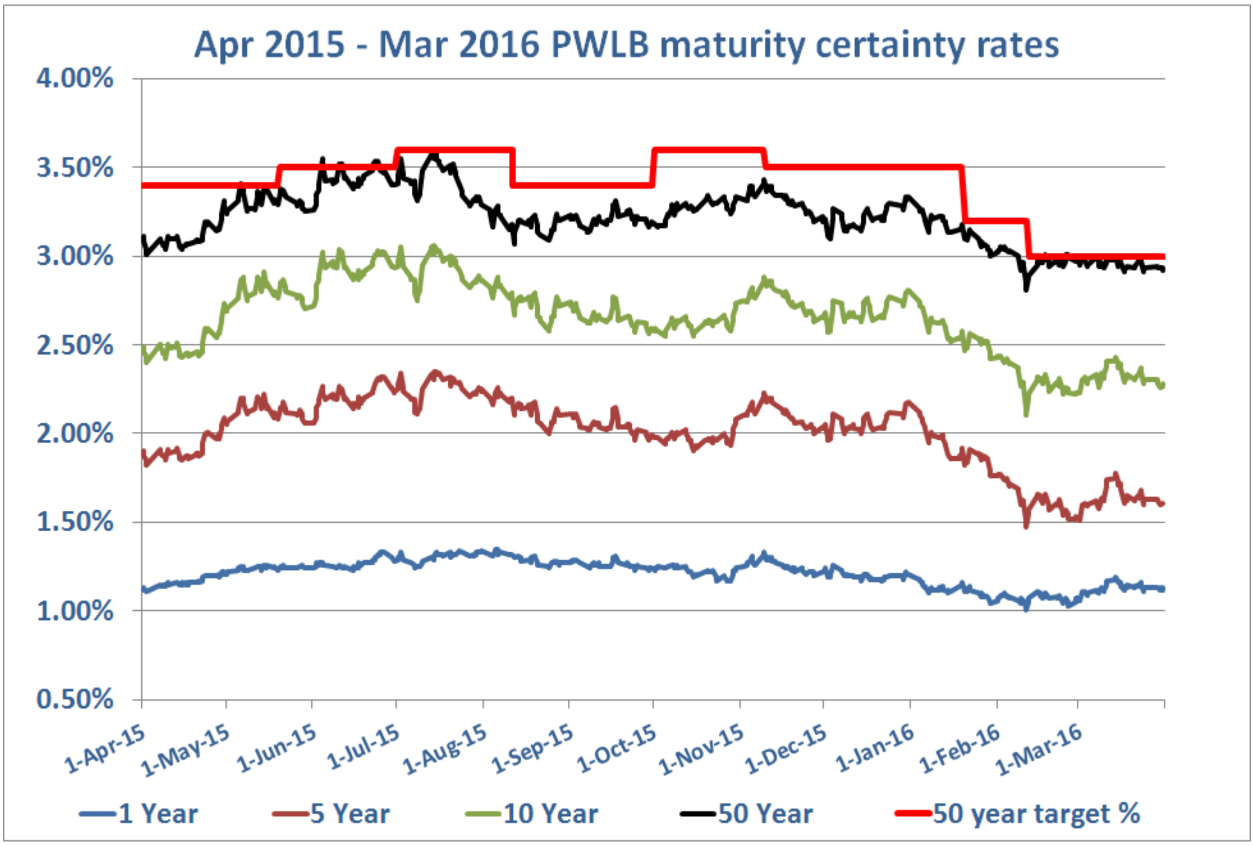
e) In America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

f) The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

4.3 BORROWING RATES IN 2015/16

a) **PWLB Borrowing Rates**

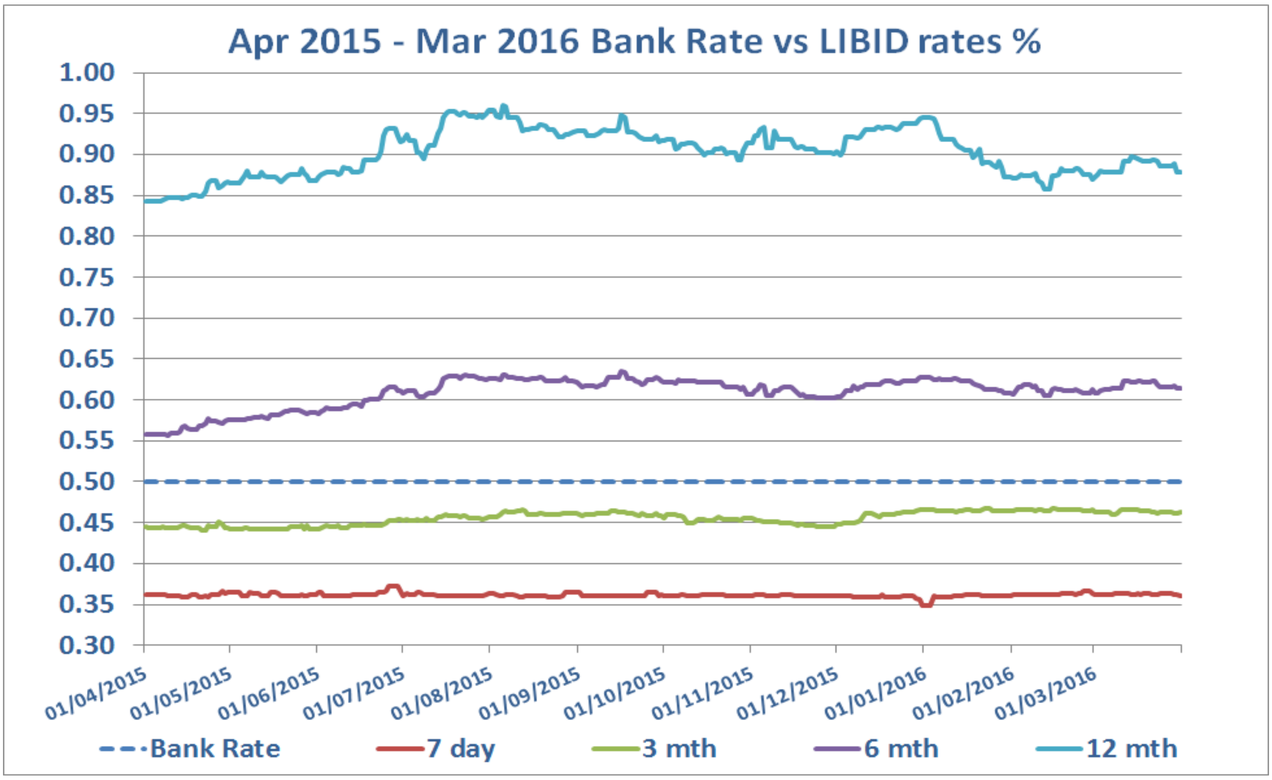
Chart 1 below shows how PWLB certainty rates have fallen to historically very low levels during the year.



4.4 INVESTMENT RATES IN 2015/16

a) Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

b) **Chart 2** below illustrates the change in the Investment Rates certainty maturity rates, for a selection of maturity periods, throughout 2015/16.



5. INVESTMENT OUTTURN FOR 2015/16

5.1 INVESTMENT OBJECTIVES

a) The Council's investment strategy is governed by Scottish Government investment regulations and sets out the approach for choosing investment categories and counterparties, based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

b) The **primary objectives** of the Council's investment strategy are:
   (i) the safeguarding or **security** of the repayment of the principal and interest of investments on a timely basis;
   (ii) ensuring adequate **liquidity** within the Council; and
   (iii) investment **yield** or return.

c) The Council will ensure:
   (i) It maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security, and the monitoring of their security; and
   (ii) It has sufficient liquidity in its investments. For this purpose it sets out procedures for determining the maximum periods for which funds may prudently be committed. The Council's Prudential Indicators cover the maximum period over which sums can be invested.

5.2 INVESTMENT ACTIVITY

a) The investment activity during the year conformed to the above approved strategy, and the Council had no liquidity difficulties. All money deposited with the Council's bank, Lloyds Bank of Scotland, was done on an overnight basis to minimise security and liquidity risk to the Council.

5.3 CURRENT INVESTMENT POSITION

a) The total value of investments/deposits for the Council at 31 March 2016 was £19.4m. Cash was held on a short term basis throughout 2015/16 with major banks and various money market funds (the latter having a credit rating of AAA).

6 TREASURY PERFORMANCE INDICATORS

The Treasury Management Function has established the following additional performance indicators.

6.1 DEBT PERFORMANCE INDICATORS

These indicators are additional to the prudential & treasury management indicators covered earlier in this report. The Indicators are:

a) **Average 'Pool Rate'** charged by the Loans Fund compared to Scottish Local Authority average Pool Rate. Target is to be at or below the Scottish Average for 2015/16.

The Council's loans fund pool rate for 2015/16 was 4.62%. The Scottish Local Authority average "pool rate" for 2015/16 is not yet available at the time of writing, but was 4.44% in 2014/15 and is not expected to be materially different for 2015/16.

b) **Average rate movement year on year**. Target is to maintain or reduce the average borrowing rate for the Council versus 2014/15. The Council's pool rate of 4.62% for 2015/16 was 0.03% lower than the reported Council's rate of 2014/15.

6.2 INVESTMENT PERFORMANCE INDICATORS

a) Security

(i) The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is 0.02% historic risk of default.

(ii) The actual performance of this indicator was 0.019% **historic risk,** slightly below the benchmark, if overnight deposits with the Council's own bank, the Bank of Scotland, are taken into account. The Bank of Scotland has only a single A credit rating and the lower the credit rating, the higher the risk of default. Excluding Bank of Scotland deposits, the risk of default on deposits was 0.0024%, which is far below the benchmark level. This was achieved by placing deposits with higher rated counterparties, which have lower historic risk of default, and by utilising only overnight or short term notice accounts.

(iii) During 2015/16, money was deposited in accounts on a short term basis, not exceeding 3 months.

(iv) *In July 2016, Standard & Poor's downgraded the Council's bank, Bank of Scotland from a stable to a negative outlook. However, this was in line with downgrades of other main UK banks. Like other main UK banks, the long and short term outlook for Bank of Scotland have been graded as A and A-1 respectively. This represents the minimum counter party grading accepted by the Council per the Treasury Management Strategy. This position is being closely monitored.*

b) Liquidity

(i) Liquid short term deposits should be at least £3,000,000, available with a week's notice.

(ii) This indicator was adhered to throughout all of 2015/16.

(iii) Weighted Average Life benchmark is **expected to be 0.5 years** (equivalent to a weighted average life of 6 months), with a **maximum of 1.00 years.**

(iv) The weighted **average life for 2015/16 was 0.01 years**, well below the 0.5 year target.

c) **Yield**
The target yield is to have internal returns on cash investment above the 7 day LIBID rate. The return for 2015/16 averaged 0.40%, compared against an average 7 day LIBID rate for the year to 31 March 2015 of 0.36%.

2014/15 comparison figures for average internal returns and 7 day LIBID were 0.37% and 0.35% respectively. Therefore, 2015/16 returns showed a continued return in excess of target and an improved return from the previous year.

Although yields remain low, the Council continues to make deposits on a short term basis with the Government's Debt Management Office (DMO) and Money Market Funds. The DMO is a very secure (Credit Rating of AAA) form of investment, but delivers a low rate of return. The Money Market Funds used for deposits are also secure (with a Credit Rating of AAA). The planned deposit allocation between these two investment types has resulted in the returns mentioned above.

6.3 IMPACT ON REVENUE BUDGET

a) **Ratio of actual financing costs to net revenue stream** *(Prudential Indicator 3)*
This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue funding for the Council. The comparison of the revised estimate approved in the 2015/16 mid year report to the outturn as at 31 March 2016 is as follows:

Table 9	**Actual**	**Estimate**
Ratio of financing costs to net revenue stream *(PI-3)*	**%** **8.65**	**%** **8.9**

b) **Net Cost of Servicing Debt (Loan Charges) – Table 10** below summarises the comparison of the outturn versus estimate for the revenue cost of servicing the debt for the Council, including interest relating to PPP schools unitary charges.

Table 10	**2015/16 Outturn £m**	**2015/16 Mid-Year Estimate £m**	**Variance (Under) /Over £m**
Interest on Borrowing	12.3	12.0	0.3
Investment Income	(0.1)	(0.1)	-
Capital Repayments	8.7	8.8	(0.1)
Total Loan Charges	**20.9**	**20.7**	**0.2**

(i) The interest on borrowing costs represents the interest paid on external debt and to internally managed funds (e.g. Pension Fund, Common Good Funds).

6.4 TREASURY MANAGEMENT INDICATORS *(Treasury Indicators 1 – 5)*

a) The Treasury Indicators (TIs) are shown in **Table 11** below. The Council remained well within these Indicator limits throughout 2015/16.

Table 11	**2015/16 Revised Indicator**		**2015/16 Actual as at 31 March 2016**
Upper limits – Debt with fixed and variable interest rates			
Upper limits on fixed interest rates *(TI-1)*	239.1		271.6
Upper limits on variable interest rates *(TI-2)*	83.7		95.1
Maturity Structure of borrowing			
	Upper *(TI-3)*	**Lower** *(TI-4)*	**Actual**
Under 12 months	20%	0%	0.00%
12 months to 2 years	20%	0%	0.00%
2 years to 5 years	20%	0%	0.41%
5 years to 10 years	20%	0%	7.73%
10 years and above	100%	20%	91.86%
Prudential limits for principal sums invested *(TI-5)*			
Cash Deposits < 12 months	100%		100%
Cash Deposits > 12 months	20%		0%

ANNEX A

<table>
<tr><th>Indicator Reference</th><th>Indicator</th><th>Page Ref.</th><th>2015/16 Original estimate</th><th>2015/16 Revised estimate</th><th>2015/16 Actual</th></tr>
<tr><td colspan="6">PRUDENTIAL INDICATORS</td></tr>
<tr><td colspan="6">Capital Expenditure Indicator</td></tr>
<tr><td>PI-1</td><td>Capital Expenditure</td><td>3</td><td>£58.4m</td><td>£50.7m</td><td>£45.0m</td></tr>
<tr><td>PI-2</td><td>Capital Financing Requirement (CFR)</td><td>6</td><td>£276.1m</td><td>£261.8m</td><td>£258.0m</td></tr>
<tr><td colspan="5">Affordability Indicator</td><td></td></tr>
<tr><td>PI-3</td><td>Ratio of Financing Costs to Net Revenue</td><td>16</td><td>10.0%</td><td>8.9%</td><td>8.82%</td></tr>
<tr><td>PI-4</td><td>Incremental Impact of Capital Investment Decisions on Council Tax</td><td>N/A</td><td>0.00</td><td>0.50</td><td>0.00</td></tr>
<tr><td colspan="5">External Debt Indicators</td><td></td></tr>
<tr><td>PI-5</td><td>Actual Debt</td><td>8</td><td>£247.3m</td><td>£225.9m</td><td>£225.5m</td></tr>
<tr><td>PI-7a</td><td>Operational Boundary
(inc. Other Long Term Liabilities)</td><td>9</td><td>£251.1m</td><td>£239.0m</td><td>£270.4m</td></tr>
<tr><td>PI-7b</td><td>Operational Boundary
(exc. Other Long Term Liabilities)</td><td>9</td><td>£196.9m</td><td>£182.5m</td><td>£215.7m</td></tr>
<tr><td>PI-8a</td><td>Authorised Limit
(inc. Other Long Term Liabilities)</td><td>9</td><td>£323.4m</td><td>£304.0m</td><td>£319.1m</td></tr>
<tr><td>PI-8b</td><td>Authorised Limit
(exc. Other Long Term Liabilities)</td><td>9</td><td>£269.7m</td><td>£242.8m</td><td>£264.4m</td></tr>
<tr><td colspan="5">Indicators of Prudence</td><td></td></tr>
<tr><td>PI-6</td><td>(Under)/Over Gross Borrowing against the CFR</td><td>8</td><td>(£37.0m)</td><td>(£52.3m)</td><td>(£56.6m)</td></tr>
<tr><td colspan="5">TREASURY INDICATORS</td><td></td></tr>
<tr><td>TI-1</td><td>Upper Limit to Fixed Interest Rates based on Net Debt</td><td>16</td><td>£251.1m</td><td>£239.1m</td><td>£270.4m</td></tr>
<tr><td>TI-2</td><td>Upper Limit to Variable Interest Rates based on Net Debt</td><td>16</td><td>£87.9m</td><td>£83.7m</td><td>£94.6m</td></tr>
<tr><td>TI-3 & TI-4</td><td>Maturity Structure of Fixed Interest Rate Borrowing 2013/14</td><td>16</td><td colspan="1">Upper</td><td colspan="2">Lower</td></tr>
<tr><td></td><td colspan="2">Under 12 months</td><td>20%</td><td colspan="2">0%</td></tr>
<tr><td></td><td colspan="2">12 months to 2 years</td><td>20%</td><td colspan="2">0%</td></tr>
<tr><td></td><td colspan="2">2 years to 5 years</td><td>20%</td><td colspan="2">0%</td></tr>
<tr><td></td><td colspan="2">5 years to 10 years</td><td>20%</td><td colspan="2">0%</td></tr>
<tr><td></td><td colspan="2">10 years and above</td><td>100%</td><td colspan="2">20%</td></tr>
<tr><td>TI-5</td><td>Maximum Principal Sum invested greater than 364 days</td><td>16</td><td>20%</td><td>20%</td><td>20%</td></tr>
</table>

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Internal Audit Work 2016/17 to August 2016

Report by Chief Officer Audit and Risk

Audit and Risk Committee

26 September 2016

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to provide the Audit and Risk Committee with details of:

a) the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and

b) Internal Audit work currently in progress.

1.2 The work Internal Audit has carried out in the period from 1 April to 31 August 2016 to deliver the Internal Audit Annual Plan 2016/17 is detailed in this report. During this period a total of 6 final internal audit reports have been issued. There were nil recommendations made.

1.3 An Executive Summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.

1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Risk Committee:

a) Notes the final reports issued in the period from 1 April to 31 August 2016 to deliver the approved Internal Audit Annual Plan 2016/17;

b) Notes the other Internal Audit assurance and consultancy work undertaken in this period; and

c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

3 PROGRESS REPORT

3.1 The Internal Audit Annual Plan 2016/17 was approved by the Audit and Risk Committee on 29 March 2016. Internal Audit has carried out the following work in the period 1 April to 31 August 2016 to deliver the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance arrangements.

3.2 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

Internal Audit Reports

3.3 Internal Audit issued final internal audit reports on the following subjects:

- Performance Management – Statutory Performance Indicators (SPIs) and Local Government Benchmarking Framework (LGBF)
- Revenues (Council Tax)
- Selkirk Conservation Area Regeneration (CARs) Scheme
- Carbon Management Programme
- Public Services Network (PSN) Compliance
- ICT Change Programme (previously ICT Review Project, and including ICT Security Controls and ICT Operational Processes

3.4 An Executive Summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

Level of Assurance	**Definition**
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Internal Audit Assurance Work in Progress

3.5 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2016/17 consists of the following:

Audit Area	Audit Stage
LEADER Grants Compliance with SLA	Drafting the report
European Maritime Fisheries Fund Compliance with SLA	Drafting the report
Procure to Pay	Fieldwork underway
Salaries including Expenses	Fieldwork underway
Schools	Assignments Issued

Other Internal Audit Assurance and Consultancy Work

3.5 Internal Audit staff have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:

3.5.1 Attending relevant seminars, development workshops and user groups, and feedback to colleagues as relevant, to ensure their skills and knowledge are kept up-to-date and to fulfil their Continuing Professional Development (CPD) requirements. All Internal Audit team members have completed their 2015/16 performance appraisals and 2016/17 objective setting and development plans.

3.5.2 Offering advice on internal controls and governance to Managers on request and through engagement in a number forums as the Council continues to transform its services, for example, the Welfare Reform Programme, the Information Governance Group, the Serious Organised Crime Officer Working Group, and the Roads Services Review Project.

3.5.3 Reviewing outstanding and overdue audit recommendations to ensure Internal Audit are satisfied that progress has been made to implement the previous internal audit recommendations and management actions, that actions taken have had the desired effect in improving internal controls and governance, and are reflected in the corporate performance system, Covalent, for reporting purposes. It is important that Management and the Audit and Risk Committee note that nine Finance-related Audit Recommendations (3 from 2013/14 and 6 from 2015/16) have been completed in Covalent on the basis that satisfactory improved measures have been put in place, considering that a number of the Financial control issues raised refer to the lack of appropriate functionality in FIS. It is expected that the Financial controls areas of improvement will be fully addressed via the Business World ERP System, it being a more modern system. These will be followed up within the coming 6 months as part of our Financial Governance assurance work, and in connection with our Business World ERP Project assurance role.

3.5.4 Offering advice on improvements to fraud prevention controls and detection processes put in place by Management liaising in fraud investigations where appropriate. Internal Audit resources have also been deployed on corporate process reviews, for example, the Corporate Fraud Working Group. Internal Auditors liaise with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.

3.5.5 Completing the review of the documentation applied in the VAT treatment of supplies and services made by the Council to customers using a variety of sources such as HMRC VAT Notices, Case Law, Sector guidance and peer expertise to establish the correct VAT treatment. The Finance service has confirmed that the document produced will become part of the reference library to be used when the monthly compliance check of VAT transactions is undertaken, and as part of the data migration to Business World ERP system.

3.5.6 During May 2016 various members of the Internal Audit team have engaged in Design Solution workshops in respect of the various HR, Payroll, Procurement and Finance management and administrative processes as part of the Business World ERP system project. Internal Audit resources have also since been deployed on project groups to ensure that appropriate internal controls are in the new system.

3.5.7 Completing the review on Asset Registers and the reconciliations between the source computer-based systems and the Financial Information System (FIS). Currently all assets are recorded both in the FIS general ledger and in the Tech Forge asset register. Assets are reconciled between the two systems either monthly as with vehicles, plant and machinery, or at year-end to include all other assets. External Audit examines the year-end reconciliation. We attended a Fixed Assets design workshop for the Business World ERP (BW) system and noted the proposal to use the Fixed Assets module as the register of fixed assets for all assets apart from property where the Tech Forge system will continue in use as the main register and any valuation adjustments will be transferred to BW by interface. For non-property assets this will eliminate the need for monthly and annual reconciliations between BW and Tech Forge.

4 IMPLICATIONS

4.1 Financial

There are no costs attached to any of the recommendations in this report.

4.2 Risk and Mitigations

(a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. Specifically as "a contribution to the Council's corporate management of risk" this includes responsibility in "Assisting management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."

(b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2016/17, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.

(c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and management may not be able to demonstrate improvement in internal control and governance arrangements.

(d) SBC Internal Audit staff resources comprise the Chief Officer Audit & Risk (50% allocation to Audit), three Senior Internal Auditors, and two Internal Auditors. This follows a recent net cost reduction restructure as an efficiency savings target and implementation of the people plans whereby the Internal Audit Manager post has been deleted arising from an early retirement, and a third Senior Internal Auditor post has been established with updates in the role to reflect current practice and additional duties. It is not anticipated that this change in Internal Audit resources would limit the level of Internal Audit assurances to all existing organisations within the Annual Plan 2016/17, though this will continue to be assessed by the Chief Officer Audit & 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 in this report.

4.5 **Carbon Management**

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

5 CONSULTATION

5.1 The Service Directors relevant to each of the internal audit reports have signed off the executive summaries within Appendix 1.

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

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

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature ....

Author(s)

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

Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Audit and Risk Committee 29 March 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations 1	2	3	Status
Audit Plan Category: Corporate Governance Subject: Performance Management (SPIs and LGBF) No: 016/010 Date issued: 15 September 2016 Level of Assurance: Substantial	The purpose of the review was to validate the Council's Statutory Performance Indicators (SPIs) which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF). We tested all the SPIs figures for the 2015/16 submission to ensure the LGBF guidance was followed, that arrangements are in place to collect the required data, and that data gathered could be agreed back to management systems and reports. We found no significant areas of concern with the data collected or the collection methods used. However, we identified three minor errors in the draft SPIs 2015/16 which were corrected prior to submission, thus confirming the benefits of an independent review to prevent errors in SPIs going undetected. We consider that the figures for these SPIs, as detailed in the LGBF 2015/16 pro-forma, are reasonable and agree to the underlying records. The Council's LGBF Indicators 2015/16 return was submitted by the August 2016 deadline. The SPIs are incorporated in performance reports, when the data is available, which are monitored and reported throughout the year to Corporate Management Team, Elected Members (Executive Committee) and the Public as per the timetable set out in the Council's Performance Management Framework. Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. However, some minor errors in figures originally reported has emphasised the need for an independent review prior to submission of the LGBF figures. With the advent of significant organisational changes and system development during 2016/17 there is also a need to ensure performance monitoring and reporting is managed appropriately within services in order to ensure figures reported are consistent, reported on time, and in line with the LGBF criteria.	0	0	0	Management have agreed the report findings. Further Internal Audit work relating to Performance Management across all Council services will continue during the year including the PIs reported against the Council's 8 corporate priorities and performing the 'critical friend' role within the planned programme of self-assessment as part of the Performance Management Framework.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Financial Governance Subject: Revenues (Council Tax) No: 084/010 Date issued: 16 September 2016 Level of Assurance: Comprehensive	The purpose of the review was to assess the consistency of the application and the administration of the 200% increase to empty property Council Tax (CT) policy change introduced in April 2016, and incorporates other elements carried forward from our 2015/16 audit work including data collection and submissions to Scottish Government, blue badge applications and appeals, and large payment to CT accounts. With effect from 1 April 2013 Government changed legislation to allow Councils to vary the amount of CT charged on long term empty dwellings up to a maximum of 200%. Prior to the changes these properties in the Scottish Borders attracted a 90% charge. The main aim of this change is to encourage owners of these empty dwellings to bring them back into use to help tackle housing shortages. Scottish Borders Council agreed on 11 February 2016 to implement these changes with effect from 1 April 2016. Our review of samples of properties confirmed that the 10% delay/discretionary delay had been applied correctly and that the premium had been applied correctly (both new policy from 1 April 2016). Appropriate arrangements are in place to ensure data and information supplied in returns to Scottish Government is accurate and on time. All appropriate checks and assessments are carried out prior to the issue of Blue Badges. Processes are in place to review large payments to CT accounts for appropriateness and accuracy. An adequate audit trail exists for transfers between accounts or where refunds are made. Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. Some improvements in a few, relatively minor, areas are required. We have no recommendations to make at this time.	0	0	0	Management have agreed the report findings. In agreement with Customer Services Management, further Internal Audit work on a sample of properties under the new policy change from 1 April 2016 will be carried out during the 4th quarter 2016/17 to ensure the charges and discounts are applied correctly. Findings will be reported on an exception basis only to highlight to Management and Audit and Risk Committee if new areas of concern emerge.

Report	Summary of key findings and recommendations	Recommendations 1	2	3	Status
Audit Plan Category: Legislative and Other Compliance Subject: Selkirk Conservation Area Regeneration (CARs) Scheme No: 154/015 Date issued: 2 August 2016 Level of Assurance: Substantial	The purpose of the review was to satisfy the external funder's requirement of programme compliance and evaluation and produce a report to confirm that the terms and conditions under which the grant offer was made and accepted have been properly applied. The Selkirk Conservation Area Regeneration Scheme (CARs) is a Partnership Project between Historic Environment Scotland (HES) and Scottish Borders Council (SBC). Its purpose is to undertake heritage and conservation based regeneration activities within Selkirk town centre over a five year period from 2013 to 2018. This is achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training opportunities. The total project budget is £1.43million, jointly funded by HES (£865k) and SBC (£565k). We found that the Selkirk CARs Scheme has been established and is being managed well and run substantially in accordance with the requirements of the contract. It is the Project Team's intention to start the process in 2016/17 of gathering the information and documentation required for the Regeneration Output Report due with HES by 30 June 2018. The audit work we performed has allowed us to provide assurance of substantial compliance with the scheme rules and the HES contract. The assurance reports, in the formats required by the funder, will be issued to satisfy the requirement for an Accountant's Report and Abstract Annual accounts for the first three financial years of the project. During the course of our audit we noted the following minor areas where processes were in need of improvement: written agreement from the funder where any practice has varied from the specific terms of the contract; and quality review of project files to ensure documentation is complete.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Legislative and Other Compliance Subject: Carbon Management Programme No: 202/009 Date issued: 5 August 2016 Level of Assurance: Comprehensive	The purpose of the review was to fulfil the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) to carry out an audit prior to the Council's annual submission to Department of Energy and Climate Change (DECC). The Carbon Reduction Commitment Scheme is mandatory with the aim to reduce the amount of carbon dioxide (CO_2) emitted in the UK and improve energy efficiency. The Council is obliged to participate in CRC, which means it has to monitor its emissions and purchase allowances based upon each tonne of CO_2 emitted. The scope of this year's review included: Updates to the evidence pack; Collection arrangements and evidence collation relating to changes in the Council's property estate; and Systemslink consumption figures for monitoring and reporting. We note that the 2015/16 annual submission has been completed and reported to DECC by end of July 2016 deadline. The annual Audit Certificate will be issued as necessary. Energy performance reports produced from Systemslink are presented to Corporate Management Team and Elected Members as part of the Quarterly Public Performance Reports which are then published on the Council's website. Total emissions for the Council for 2015/16 are 16,451 tCO_2, at a cost of £262K; a reduction from 19,207 tCO_2 costing £314K for 2014/15. Contributing factors are: the transferring of properties; the pre-purchase of carbon tax credits at reduced prices; reduction in street lighting emissions due to the use of LEDs; and a fall in the carbon factor of electricity due to the reliance on fossil fuels reducing because of increased renewables. Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: ICT Governance Subject: Public Services Network (PSN) Compliance No: 237/002 Date issued: 12 September 2016 Level of Assurance: Comprehensive	The purpose of the review was to examine the Council's compliance with the requirements of the Public Services Network (PSN) and progress with implementation of actions required to achieve full compliance. The following examples of good practice were found: • Appropriate processes to manage actions necessary to achieve accreditation were in place; • Appropriate processes to identify and manage risk were in place; • The PSN project board met regularly and was provided with good quality information, which facilitated effective decision making; • Comments and recommendations from previous audit reports had been actioned A successful submission of the Council's PSN Code of Connection Application was made and the Council achieved accreditation of its compliance with the requirements of the Public Services Network (PSN) in July 2016 approved by the Cabinet Office. The Council is fully PSN compliant and accredited until August 2017. The PSN Project Manager will prepare an End of Project report which will include lessons learned and will be issued to the Project Board. This will allow Managers to anticipate and manage any issues, and to allocate resources accordingly. One observation of the successful submission this time around was early engagement by the PSN Project Manager with key managers to plan activity on each of the areas highlighted in the lessons learned report from last year's PSN project. Another key success factor was early engagement by the PSN Project Manager with the Cabinet Office. Internal Audit considers that the level of assurance we are able to give in respect of PSN compliance is comprehensive. Sound risk, control, and governance systems are in place.	0	0	0	Management have accepted report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: ICT Governance Subject: ICT Change Programme (previously ICT Review Project, and including ICT Security Controls and ICT Operational Processes) No: 238/001 Date issued: 16 September 2016 Level of Assurance: Comprehensive	The purpose of the review was to: evaluate the effectiveness of governance, monitoring and reporting arrangements for the ICT Change Programme (next phase of transition associated with Gate Review Milestones set out in Project Plan, previously ICT Review Project); assess the adequacy of proposed arrangements to manage the security of the Council's equipment, software and data, and; review proposed change management and incident management controls. The following examples of good practice were found: • There are appropriate governance arrangements in place for monitoring and reporting on the progress of the programme to elected members, and to senior officers. There are appropriate governance structures in place between the Council and CGI with regard to the delivery of the services. • Monitoring of the budgetary spend and financial implications of the contract takes place in line with the Council's procedures. • Performance Indicators to be measured and reported have been agreed and will be included in reporting to the Executive Committee from 31 December 2016. • The role of the Council and CGI in the development of security policy and the delivery of the service in line with that policy is clearly detailed in the contract. Services are to be delivered in line with industry good practice. • Operational procedures are documented for a variety of business processes. These are designed to comply with best practice. • Roles and responsibilities for change management are clearly defined. Our audit work has been restricted to a review of governance arrangements and proposed processes by examining relevant documentation and discussions with officers. We have sought evidence of the existence of appropriate controls and reviewed against good practice.	0	0	0	Management have agreed the report findings. In agreement with IT Management, further Internal Audit assurance work will be carried out during the 3rd and 4th quarter 2016/17.

Report	Summary of key findings and recommendations	Recommendations 1	2	3	Status
Subject: ICT Change Programme (previously ICT Review Project, and including ICT Security Controls and ICT Operational Processes) (cont'd)	Highlight Reports presented to the ICT Board have contained some assessment of risk. Officers have commented, and Management have agreed, that risk strategy and management should be reviewed to ensure it complies with Council policy, and this is being addressed. Service transfer to CGI is due to take place on 1 October 2016. The establishment of the Intelligent Client function, which will remain within the Council and will be responsible for ICT client management, contract management, financial management and business partnering, is currently under way. We intend to perform further Internal Audit assurance work once the Intelligent Client function is fully established, which will be discussed with Management, and will include an element of walk-through testing to allow us to comment on the effectiveness of the controls in operation. We also plan to conduct substantive testing on contract monitoring and performance management data, to allow us to obtain appropriate audit assurance. Internal Audit considers that the level of assurance we are able to give is in respect of ICT Change Programme governance arrangements and proposed processes, as described above, is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas are required, notably in respect of programme risk management. We have made no recommendations.				